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CITY FISCAL DISTRESS

Structural, Demographic and Institutional Causes

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

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CITY FISCAL DISTRESS:

STRUCTURAL, DEMOGRAPHIC AND INSTITUTIONAL CAUSES

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CITY FISCAL DISTRESS

INTRODUCTION

The roots of local fiscal stress and crisis can be found in converging patterns of economic, social, and intergovernmental change. It is these deeper patterns, rather than short-term political or management behavior that dominates headlines, that require the attention of policy-makers at all levels.

1. The United States is undergoing a major industrial restructuring. All cities and metropolitan areas are affected by this process of economic change. For many, particularly the nation's central cities, the consequence of this process of economic change is steady erosion of their tax bases concurrent with increasing joblessness.

   - Per capita income in the largest central cities is approximately 58.5 percent of that of their suburbs on average. The range of these income disparities between cities and suburbs around this average, however, is great. The magnitude of these income disparities is a clear indicator of the disparities in their tax bases.

   - The evidence suggests that disparities in per capita income between cities and suburbs may have increased dramatically in the 1980s. Confirmation of this trend must await availability of data from the 1990 Census.

   - There are also significant differences in rates of unemployment between almost all cities and their suburbs. In a few, such as Detroit, Baltimore and St. Louis, central city unemployment rates are almost double those experienced in their suburbs.

2. *Major demographic shifts* have combined with structural economic change to erode the tax bases of central cities. More th[illegible] 5 million more people lived in poverty at the end of the decade of the 1980s than [illegible]ars previously. Over this period, poverty became increasingly concentrated in the nation's central cities. These trends result in systematic differentials among localities in income, wealth, and poverty. These differences create fiscal stresses in many central cities.

3. *Changes in the intergovernmental system* are increasing the fiscal squeeze on cities and towns throughout the United States.

   - Federal cutbacks and fiscal retrenchment in many states have significantly reduced the share of local revenues provided by the federal government and states.

   - The escalating costs of federal and stated mandated programs are placing growing fiscal burdens on cities.

   - Some states impoverish their cities by tightly regulating types of taxes cities can use and by exercising detailed controls over tax rates and assessment practices.

The current economic recession compounds the problems of cities already attempting to cope with difficult fiscal circumstances. Even without a recession and with the best practices of fiscal management, many cities and towns will face severe fiscal difficulties in the 1990s as a result of the differential effects of these trends.

I. ECONOMIC RESTRUCTURING AND FISCAL DISPARITIES

Even as all levels of government--federal, state, and local--attempt to deal with the fiscal pressures created by the recession, their economies are undergoing a process of industrial restructuring. This process is driven by new technologies, changing tastes and values of consumers, and changing patterns of regional and international competition.

No region, city or town will be immune to these forces of economic change. A 1988 study of the future of the U.S. economy concluded:[1]

> *During the next two decades, new technologies, rapid increases in foreign trade, and the tastes and values of a new generation of Americans are likely to reshape virtually every product, every service, and every job in the United States. These forces will shake the foundations of the most secure American businesses. Few features of the change seem inevitable.*

This process of industrial transformation is essential to the long-term competitiveness of the nation in the global economy and to that of U.S. regions. The strength of cities and their regional economies is directly related to their capacity to facilitate the transition to new economic functions in response to the changing requirements of the national and global economies.

But these patterns of economic change differ across regions, states, and localities. As a consequence, different cities and towns attempt to meet the needs of their residents and to balance their budgets with very different resource bases from which to derive revenues. Many jurisdictions in the United States have been adversely affected by the ongoing restructuring of their economies.

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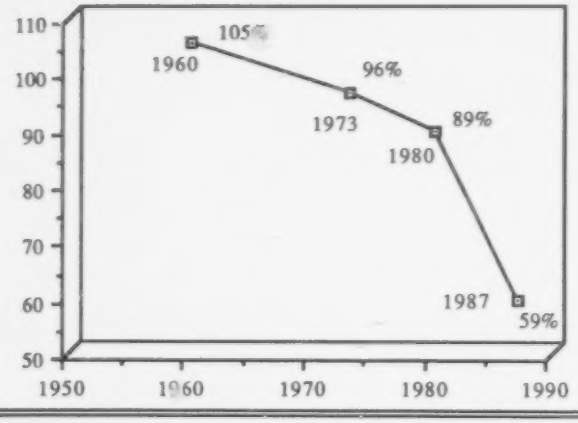
[1]U.S. Congress, Office of Technology Assessment, *Technology and the American Economic Transition: Choices for the Future* OTA-TET-283, (Washington, D.C.: U.S. Government Printing Office, May 1988), p.3.

Per capita income is a measure of the economic health of places, a reflection of the potential tax base, and an indicator of the economic welfare of a city's residents. The magnitude of disparities between per capita income of cities and their suburbs are a mirror of differences in their tax bases. For some, these disparities are sharp and distinct.

A substantial decline in the economic welfare of cities relative to their suburbs has been occurring since at least 1960, and a precipitous drop appears to have occurred in the 1980s (Figure 1). In 1960, per capita income was five percent greater in cities in metropolitan areas than in their suburbs.[2] By 1973, per capita income in cities had fallen to 96 percent of their suburbs.[3] Seven years later, in 1980, this ratio had fallen to 89 percent.[4] This decline in the economic welfare of cities relative to suburbs appears to have accelerated sharply in the 1980s. By 1987, per capita income in central cities was only 59 percent of that of their suburbs.[5]

Figure 1
Central City/Suburban Income Disparities, 1960-1987
(Central City Per Capita Income as Percent of Suburban Per Capita Income)

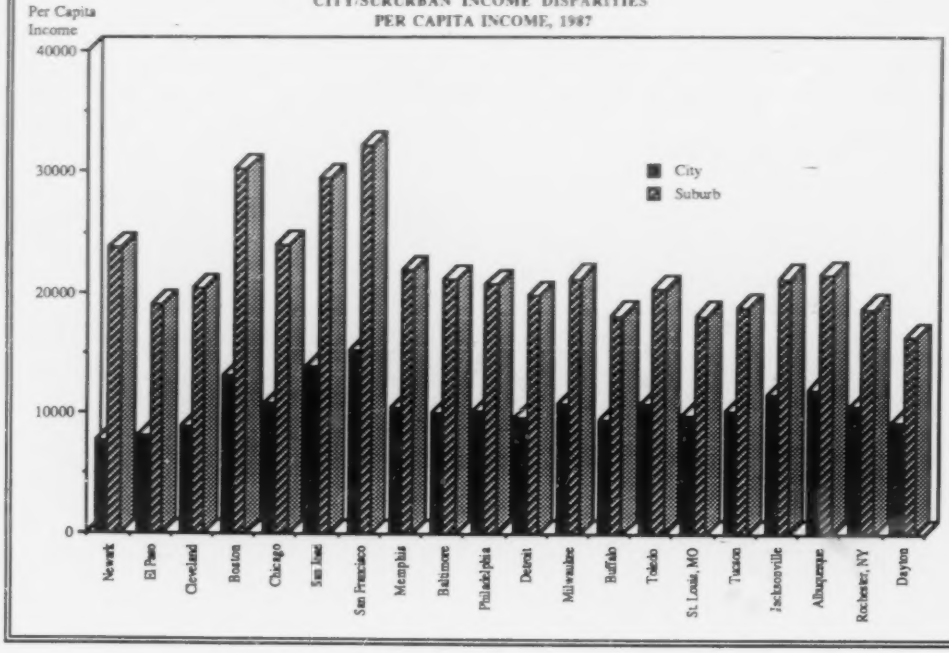


[2]Advisory Commission on Intergovernmental Relations, *Trends in Metropolitan America* (Washington, D.C.: ACIR, February 1977), p. 40.
[3]Advisory Commission on Intergovernmental Relations, *Trends in Metropolitan America* (Washington, D.C.: ACIR, February 1977), p. 40.
[4]This figure is based on a sample of the 85 largest cities in 1980. See Advisory Commission on Intergovernmental Relations, *Fiscal Disparities: Central Cities and Suburbs, 1981* (Washington, D.C.: U.S. Government Printing Office, 1984)
[5]This is the average ratio for the sample of 62 cities and their suburbs presented in the Appendix. This sample is a majority of of large cities for which 1990 Census data initially became available.

These comparisons between 1980 and 1987 must be viewed with caution.[6] Nonetheless, the orders of magnitude are striking. A great deal of attention has focused on the polarization of incomes in the United States in the last decade. These data provide a geographical dimension to this issue. Quality of life is directly related to geographical places and the economic vitality of these places. If, indeed, we are witnessing increasing disparities between per capita incomes in cities and their suburbs, the issue of the fiscal limitations of cities must be addressed anew. Final documentation of this trend toward increasing city-suburb income disparities must await the availability of data from the 1990 Census.

Figure 2 identifies 20 larger cities with very large city/suburban differences in per capita income in 1987. The range of variation in the ratio of city and suburban per capita income is large. Within this set of 20, the city with the highest per capita income, San Francisco, also has the highest suburban per capita income.

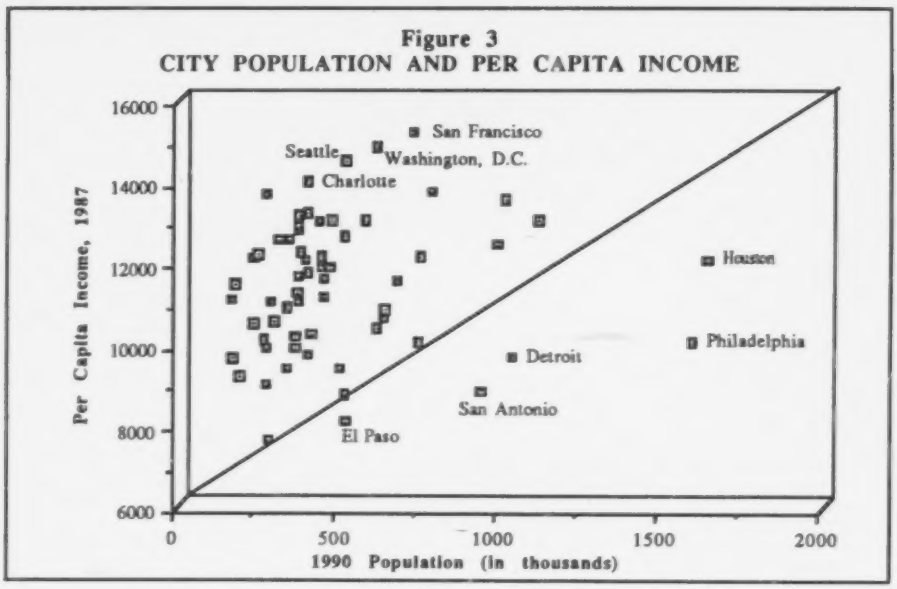
Figure 2
CITY/SURURBAN INCOME DISPARITIES
PER CAPITA INCOME, 1987



[6]Caution is required both because of the computational steps necessary to estimate 1987 per capita income for suburbs and the slightly different samples of cities used to generate the average figures for the two years.

There does not appear to be any consistent relationship between population size of cities and economic health, as measured by per capita income. As illustrated in Figure 3, the range of variation is great. Per capita income among these cities in 1987 ranged from over $15,000 in San Francisco to less than $8,000 in Louisville.[7] Some cities, such as San Francisco, Washington D.C., Seattle, and Charlotte are doing well by this measure of economic health. Other large cities like Philadelphia, Detroit, San Antonio and Philadelphia have relatively low per capita incomes. Even within the set of cities with populations between 100,000 and a half million, the variation in per capita income is extremely wide.

Figure 3
CITY POPULATION AND PER CAPITA INCOME

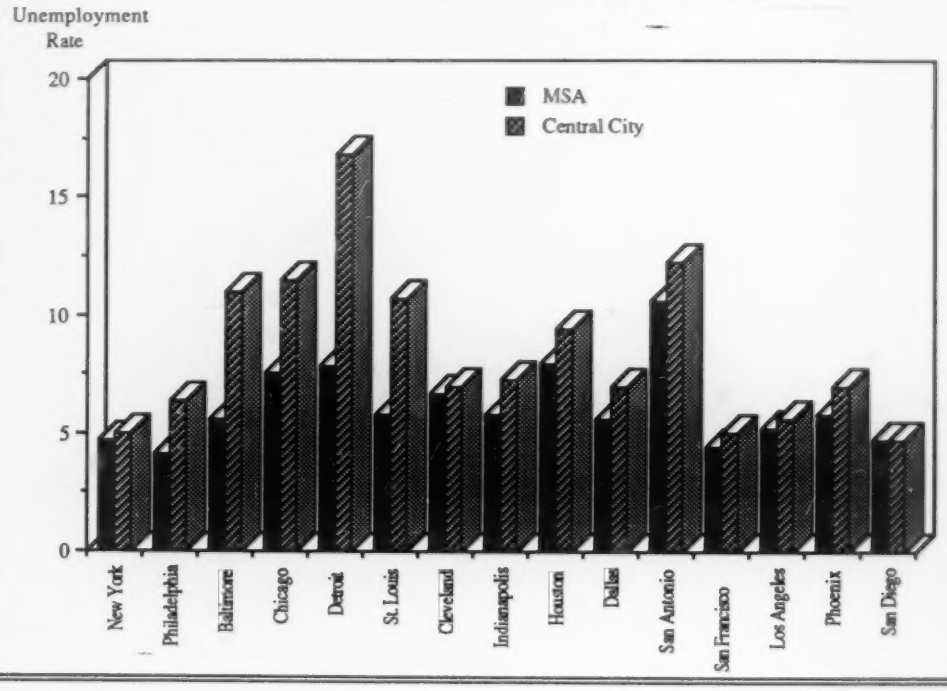


[7]Clearly, the cost of living differs significantly among the cities in Figure 3. The differences in real or cost of living adjusted per capita income would be less.

Unemployment is another measure of both the economic vitality of a city and the potential service demands of an affected population. Although data are limited, the evidence is strong that central city unemployment rates greatly exceed those of many metropolitan areas. Figure 4 examines the differentials of 15 metropolitan areas for which data are available. With the single exception of San Diego, the central cities of these areas are more sharply impacted by joblessness.

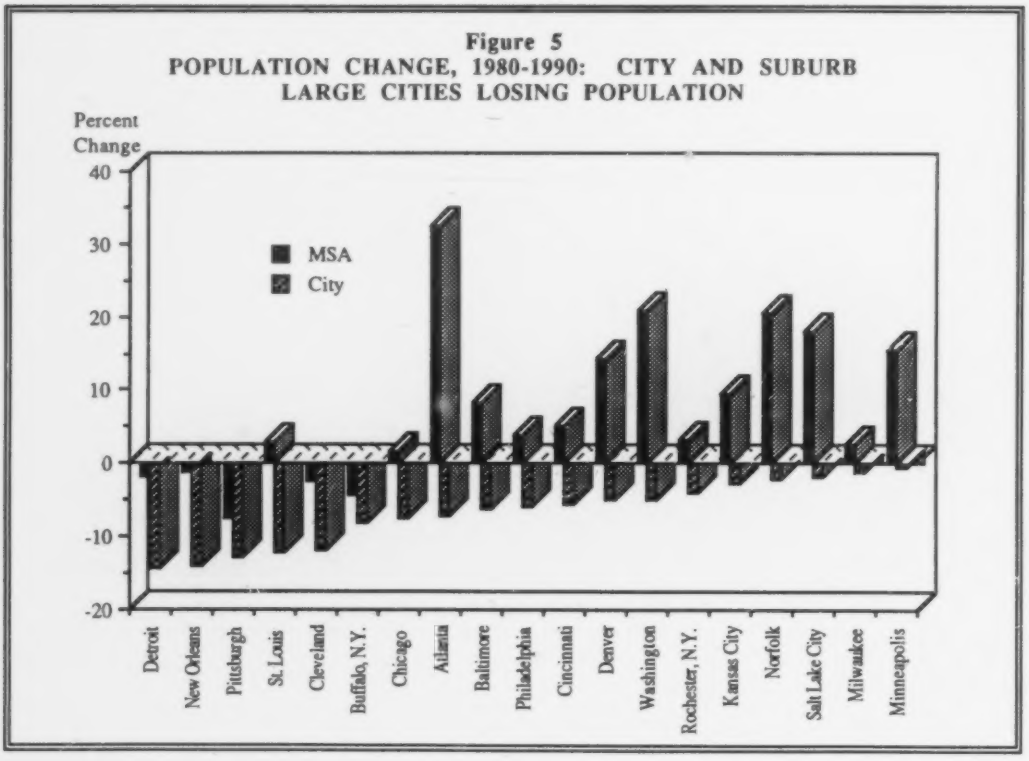
Figure 4

CITY AND METROPOLITAN UNEMPLOYMENT RATES, 1988



Demographic trends also provide a mirror of the changing economic fortunes of cities and their suburbs. Between 1980 and 1990, 19 major cities lost population (Figure 5). Of these only five were in metropolitan areas that lost population. The rest were in growing metropolitan areas, some of which were growing rapidly even as their central cities declined in size.

Figure 5
POPULATION CHANGE, 1980-1990: CITY AND SUBURB
LARGE CITIES LOSING POPULATION



II. THE BURDEN OF POVERTY

Demographic change has combined with the dramatic structural changes in the economies of central cities to erode the tax bases of many of these jurisdictions. Most important of these are the movement of higher income households from cities to suburbs and the increasing concentration of poverty in central cities and cities and towns in nonmetropolitan areas.

In 1987, NLC pointed to the linkage between the performance of the national economy and poverty (*Poverty in America: New Data, New Perspectives).*

> *The direction of this causation, however, is not only from the national economy to poverty. Poverty has a breaking influence on the vitality of the economy. Responding to the critical needs of those in poverty directs scarce national resources from other uses which might spur economic growth. Further, the segment of the poverty population which might be added to the workforce should be viewed as a national resource whose potential can promote economic growth.*

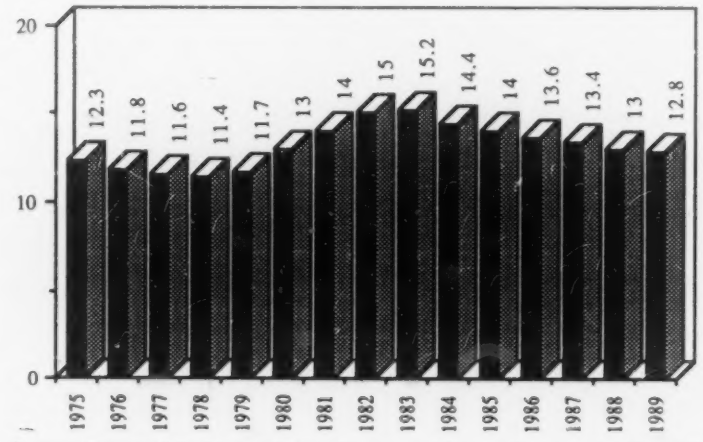
This 1987 research report documented the increasing urbanization of poverty in the United States between 1979 and 1985, a year when the rate of poverty stood at a twenty-year high (1970-1989).

A decade of structural economic change and recessions in the 1980s and early 1990s have increased poverty in the United States.

> *More than 5.5 million more people were living in poverty in 1989 than ten years previously.*

The rate at which poverty afflicted Americans increased by one percent over the decade 1979-1989 (Figure 6). This increased poverty rate accounted for fully one-half of the increase in poverty between the beginning and end of the decade. The other half occurred because of overall population growth. Recession in the early 1980s sharply increased poverty. Relative prosperity in the last five years of the decade brought this rate back to levels similar to those at the beginning of the decade.

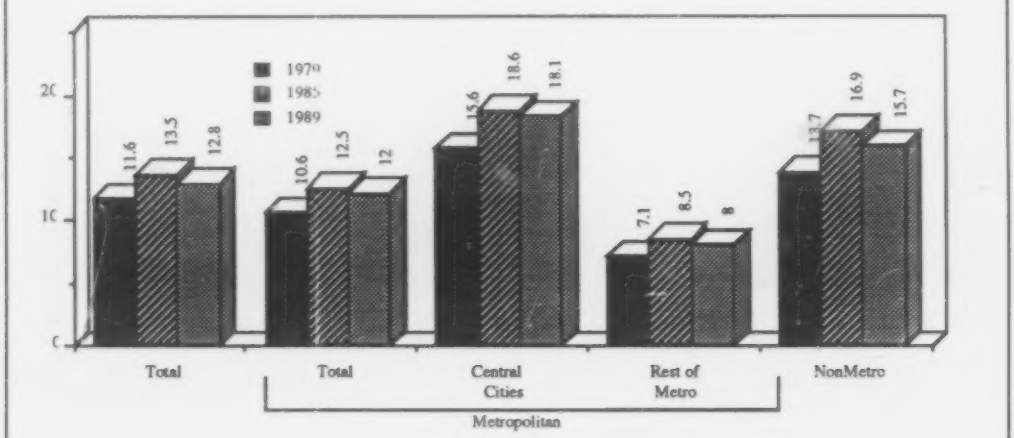
Figure 6
POVERTY RATES OF INDIVIDUALS, 1975-1989



Source: Bureau of the Census, *Money Income and Poverty Status in the United States.*

Central cities experienced the highest rates of poverty again in 1989, as they did in 1985 and in 1979 (Figure 7). By 1989, there were approximately 4.4 million more persons in poverty in central cities than in 1979. Nonmetropolitan areas continued to experience high rates of poverty. The incidence of poverty increased by two percentage points over the decade, although the number of those in poverty in nonmetropolitan areas decreased by slightly more than one million over this ten-year period.

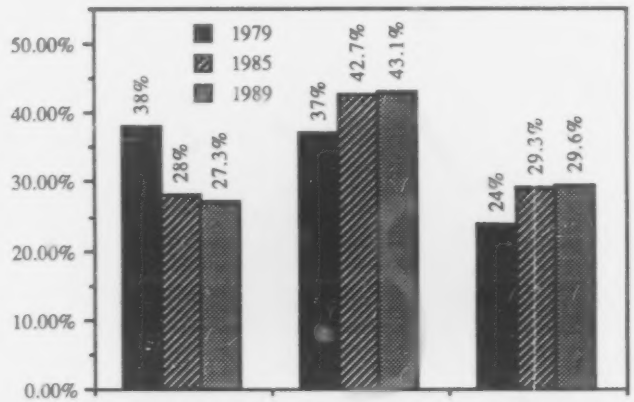
Figure 7
POVERTY RATES OF INDIVIDUALS BY TYPE OF RESIDENTS
Percent of All Persons in the Areas



The relative prosperity of the last five years of the decade did not, by this measure, favor the suburbs. Although suburbs had the lowest rates of poverty in each of the three years examined, the incidence of poverty in the suburbs of metropolitan areas decreased by only one-half of one percentage point between 1985 and 1989, the same as in the metropolitan area as a whole and in their central cities.

Slightly more than 60 percent of all those afflicted by poverty lived in metropolitan areas in 1979. The remainder lived in nonmetropolitan areas. The data do not identify how many of these were in nonmetropolitan cities and towns. The urban share of those in poverty, however, is clearly greater than simply that of central cities and their suburbs (Figure 8).

Figure 8
DISTRIBUTION OF INDIVIDUALS IN POVERTY
By Type of Residence, 1979, 1985 & 1989



Ten years later, by 1989, 72.7 percent of those in poverty were in metropolitan areas. This represents an increase of over 10 percentage points in the metropolitan share of poverty.

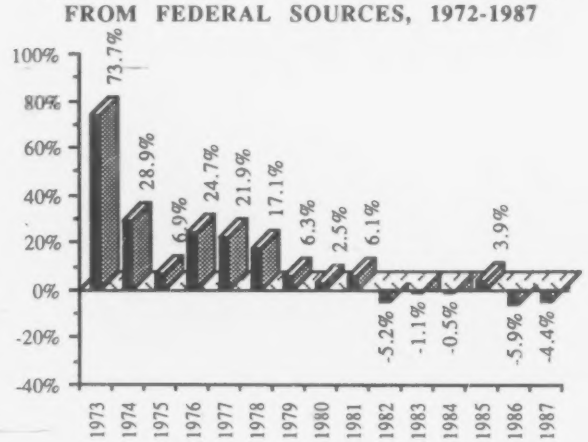
Poverty is increasingly concentrated in central cities in the United States. Over the decade, the central city's share of the nation's poor increased from 37 to 43 percent or by six percentage points. The economic recovery of the 1980s had little effect on the incidence of poverty in central cities, and their share of the nation's poor increased as the national economy grew. Although the proportion of those in poverty in suburban rings increased by over this period, sharp disparities between central cities and suburbs in both rates and shares of poverty remained at the end of the decade.

III. CHANGES WITHIN FEDERAL SYSTEM

Critics of urban fiscal management often fail to recognize how these changes within the intergovernmental systems, as well as the control states exercise over taxing sources available to cities, affect the fiscal conditions. Federal cutbacks, current budget shortfalls in many states, and escalating mandated costs are increasing the fiscal burdens of cities and towns, even as many attempt to cope with the costs of economic and demographic change.

The federal government has retreated from its commitment to the welfare of cities made in the late 1960s. Since roughly 1986, federal assistance to local governments has been declining (Figure 9).[8] Adjustment of federal assistance to local governments for inflation would further accentuate the precipitousness of the federal retreat in its commitment to local governments.

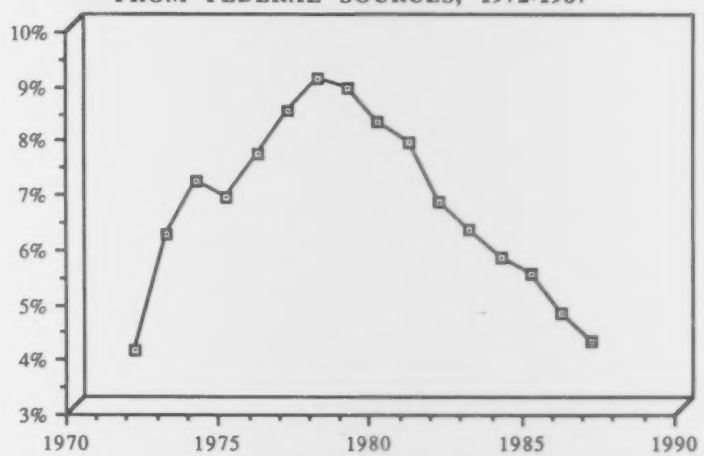
Figure 8
PERCENT CHANGE IN LOCAL REVENUES FROM FEDERAL SOURCES, 1972-1987



[8]Data for Figures 9-13 are from Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, (Washington, D.C.: January 1989).

The share of total local government revenues provided by the federal government, after increasing throughout the 1970s, began to decline precipitously in 1980 (Figure 10). In 1978 intergovernmental transfers from the federal government constituted 9 percent of local government revenues. By 1987, this figure had decreased to 4.2 percent. In 1986, as part of the New Federalism, general revenue sharing, a major source of unrestricted funding for cities, was eliminated. Other programs providing assistance to cities have been systematically pared or eliminated.

Figure 10
SHARE OF TOTAL LOCAL REVENUES FROM FEDERAL SOURCES, 1972-1987

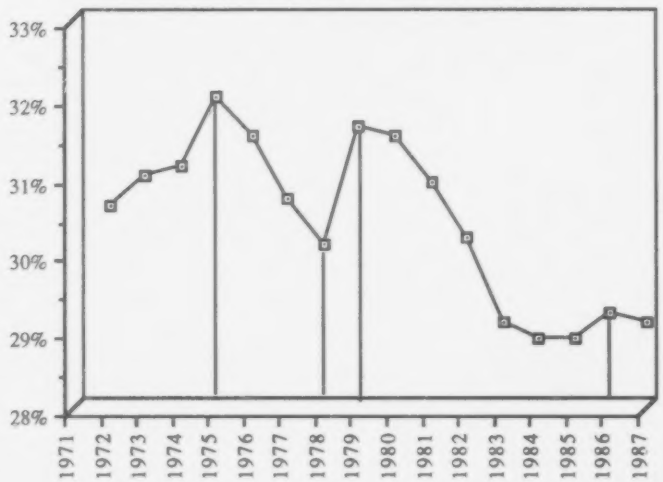


Prospects for increased federal funding to meet domestic priorities and address the problems of the nation's cities are extremely limited. Continuing federal deficits, the growing federal debt, political opposition to new taxes, and lack of political consensus on national goals effectively preclude any federal response to the needs of cities.

Even as federal assistance to cities has declined, the cost of federal mandates to cities has soared. In particular, environmental and medical care mandates, unaccompanied by federal funds for implementation, now pose major challenges to city fiscal capacities. In addition, new controls on the ability of local governments to issue bonds legislated in the 1986 Tax Act further handicap cities as they attempt to address their fiscal needs.

The ability of states to assist cities has been constrained by their own expanded responsibilities under the New Federalism and by their own budgetary problems. Between 1980 and 1985, the state share of total local revenues declined (Figure 11). Since 1985, this contribution appears to have stabilized. In 1975, the state share of total local revenues was 32 percent. By 1987, this share was 29 percent.

Figure 11
SHARE OF TOTAL LOCAL REVENUES FROM STATE SOURCES, 1972-1987



In the current recession, however, 28 states confront serious deficits that will require cutbacks in programs, including those benefiting cities, and, in some cases, tax increases. This will hamper the ability of many states to respond to fiscal stress of cities through increased assistance.

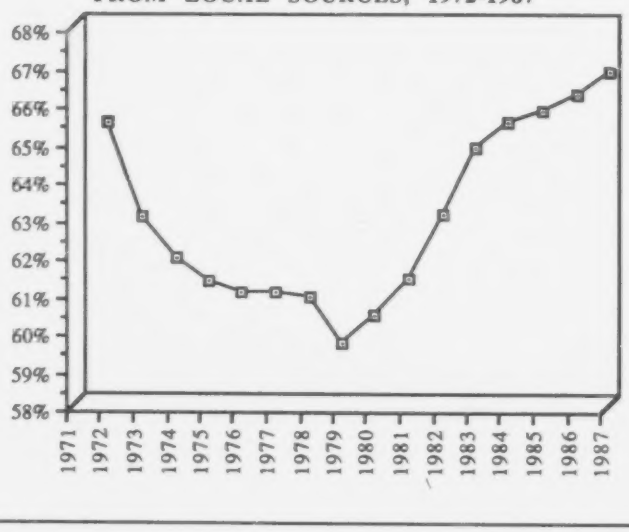
States have also increased fiscal pressures on cities through mandates. In many cases, cities are mandated by states to provide services without any state provision for funding. Some states have attempted to address this problem. California and Florida, for example, have passed reimbursement acts that require mandates to be accompanied by funding. Florida legislation permits any mandates for which funding is not provided to be ignored by local governments. Other states require fiscal notes which are financial impact

statements of the costs to local governments of pending mandate legislation. Fiscal notes, by specifying the costs of pending mandates, are intended to force consideration of costs in the legislative process.

States can impoverish their cities through state policies regulating the type of taxes local governments can use. In some states, cities may use any taxes not prohibited by state legislation. In others, cities must be authorized to used particular taxes by state legislation. In addition, some states exercise fairly detailed controls over local tax rates and assessment practices.

Local governments have not been passive over this period. The share of local revenues that had to be derived from local sources has increased sharply since 1980, after falling consistently throughout the 1970s (Figure 12). In 1979, local governments derived slightly less than 60 percent of their revenues from local sources. By 1987, this figure was almost 67 percent.

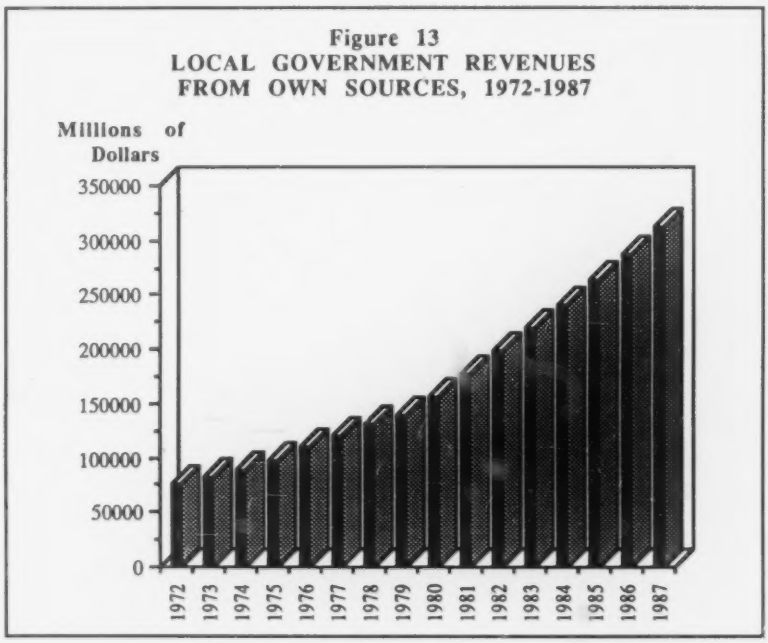
Figure 12
SHARE OF TOTAL LOCAL REVENUES FROM LOCAL SOURCES, 1972-1987



This increased local share is not an artifact of federal cutbacks. During this period local governments were significantly increasing the revenues they derived from their own sources (Figure 13). Between 1979 and 1987, locally generated revenues increased by 84.4 percent.

Despite this increased level of local revenue effort, some cities and towns are experiencing fiscal distress because of economic and demographic change, and changes and restrictions within the intergovernmental system. Fiscal crises resulting from these structural and institutional problems cannot be addressed by cities acting alone, particularly where local revenue efforts are already high.

Figure 13
LOCAL GOVERNMENT REVENUES FROM OWN SOURCES, 1972-1987



Answers must be found within the intergovernmental system, in metropolitan regionalism, and by addressing the negative tax climate that pervades cities and states. Among these are:

- The federal and state governments must recognize that cities, acting alone, cannot effectively address structural and institutionally induced fiscal distress. Both of these levels of government should consider programs to assist cities confronting budgetary problems due to these sources.

- In addition, both the federal government and states must recognize the increasing costs of mandates on cities and towns. New mandates should be accompanied by revenues for implementation, especially for local governments already confronting fiscal problems.

- The federal and local governments should recognize the burden on city fiscal systems created by the increasing concentration of the nation's poor in central cities. Poverty is not simply the responsibility of cities. Federal and state programs should assist central cities, as well as distressed jurisdictions in suburbs and nonmetropolitan areas, in responding to the needs of those in poverty.

- States should address the issue of the effects of restrictive state tax policies on the ability of local governments to respond to their fiscal problems.

- In an era of federal and state deficits, part of the answer must be found within metropolitan areas. Metropolitan areas are a single regional economy. The economic health of any jurisdiction within the region affects the health and potential of the whole. The decade of the 1990s must be a period of coalition building and tax base sharing among jurisdictions within metropolitan areas.

- An unfortunate legacy of the 1980s is the prevailing pejorative attitudes toward any new taxes, even when the need is great and the justification strong. This must change. In particular, cities cannot respond to their own fiscal needs if their ability to derive new revenues is restricted by voter unwillingness to approve new taxes or tax rates.

APPENDIX

CENTRAL CITY/SUBURBAN DISPARITIES IN INCOME

CENTRAL CITY/SUBURBAN DISPARITIES IN PER CAPITA INCOME

RANK	CITY	PER CAPITA INCOME		
		CITY 1987 ($)	SUBURBAN ($)	CITY AS PERCENT OF SUBURBAN
1	Newark	7,622	23,747	32.1%
2	El Paso	8,027	19,049	42.1%
3	Cleveland	8,690	20,305	42.8%
4	Boston	12,984	30,158	43.1%
5	Chicago	10,806	24,005	45.0%
6	San Jose	13,711	29,468	46.5%
7	San Francisco	15,137	32,315	46.8%
8	Memphis	10,347	21,919	47.2%
9	Baltimore	9,989	21,054	47.4%
10	Philadelphia	10,002	20,692	48.3%
11	Detroit	9,662	19,755	48.9%
12	Milwaukee	10,593	21,104	50.2%
13	Buffalo	9,354	18,072	51.8%
14	Toledo	10,872	20,344	53.4%
15	St. Louis, MO	9,718	18,074	53.8%
16	Tucson	10,204	18,837	54.2%
17	Jacksonville	11,514	21,136	54.5%
18	Albuquerque	11,988	21,515	55.7%
19	Rochester, NY	10,456	18,758	55.7%
20	Dayton	9,135	16,255	56.2%
21	Birmingham, AL	8,954	15,892	56.3%
22	Fresno	10,151	17,759	57.2%
23	Indianapolis	12,111	21,057	57.5%
24	Miami	9,830	16,941	58.0%
25	New Orleans	9,340	16,083	58.1%
26	Oakland	12,215	20,909	58.4%
27	Columbus	10,811	18,248	59.2%
28	Louisville	9,852	16,574	59.4%
29	Wichita	12,483	20,521	60.8%
30	Fort Worth	11,082	17,938	61.8%
31	Austin	11,860	19,103	62.1%
32	Houston	12,007	18,457	65.1%
33	Atlanta	11,689	17,892	65.3%
34	Dallas	13,489	20,415	66.1%
35	Wash. D.C.	14,778	22,310	66.2%
36	Norfolk, VA	10,070	15,165	66.4%
37	Cincinnati	11,223	16,892	66.4%
38	San Bernardino	9,623	14,471	66.5%
39	Pittsburgh	10,988	16,397	67.0%
40	Phoenix	12,375	18,353	67.4%
41	Denver	12,980	19,174	67.7%
42	Los Angeles	13,592	20,070	67.7%
43	Sacramento	11,580	17,057	67.9%
44	Portland, OR	11,830	17,293	68.4%
45	Kansas City, MO	12,077	17,552	68.8%

CENTRAL CITY/SUBURBAN DISPARITIES IN PER CAPITA INCOME

46	Omaha	12,480	18,112	68.9%
47	Tampa	11,004	15,783	69.7%
48	San Diego	12,978	18,602	69.8%
49	Minneapolis	13,092	18,675	70.1%
50	Nashville-Dvsn.	12,583	17,669	71.2%
51	Long Beach, CA	12,947	17,774	72.8%
52	Oklahoma City	11,547	15,818	73.0%
53	Seattle	14,438	19,369	74.5%
54	St. Petersburg	12,170	15,501	78.5%
55	Newport News, VA	11,396	14,463	78.8%
56	Tulsa	12,829	15,785	81.3%
57	Honolulu	14,483	17,448	83.0%
58	Riverside, CA	12,034	14,371	83.7%
59	Salt Lake City	11,064	12,590	87.9%
60	Charlotte	13,970	15,519	90.0%
61	Virginia Beach	13,141	14,455	90.9%
62	San Antonio	12,592	12,893	97.7%
	Average	10,796	18,469	58.5%

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,400 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

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Research Report on America's Cities

CITY FISCAL CONDITIONS IN 1991

One of a series of Research Reports on major empirical studies of conditions and policies in America's municipalities.

NATIONAL LEAGUE OF CITIES

Research Reports on America's Cities

NLC's "Research Reports" series consists of empirical studies about conditions and policies in America's municipalities. The series editor is William Barnes, Research Director, NLC.

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CITY FISCAL CONDITIONS IN 1991

By Michael A. Pagano
Center for Public Management and Regional Affairs
and Professor of Political Science, Miami University

July 1991

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PREFACE

We are pleased to present this ninth annual report on city fiscal conditions to NLC's member cities and state leagues. The report presents the results of a survey of cities and towns conducted in the spring of 1991. This is one of a series of NLC publications on trends and issues affecting America's cities and towns.

The purpose of this study and other reports in NLC's research series is to provide timely and reliable information that will assist public discussion about significant topics. Citizens and policymakers alike need to understand better the affairs of the nation's municipal governments in order to knowledgeably debate alternative courses of public action.

The study was conducted and written for NLC by Dr. Michael A. Pagano, Professor of Political Science, Miami University, Ohio. The Center for Public Management and Regional Affairs at Miami University, directed by Dr. Philip A. Russo, Jr., carried out the data management tasks. We thank them for their excellent work that made this report possible. We also thank Douglas D. Peterson, NLC Senior Policy Analyst, for his gracious and expert assistance in facilitating this project.

Donald J. Borut
Executive Director
National League of Cities

William R. Barnes
Director, Center for Research and Program Development

ACKNOWLEDGEMENTS

The careful and thorough responses to the 1991 fiscal conditions survey by 525 city officials speak highly of their dedication. Without the commitment of time and resources by these officials, this report would not have been possible.

I would like to thank Dr. William Barnes, Douglas Peterson, and Randy Arndt of the NLC staff, and Mike Lawson of the Connecticut Conference of Municipalities, for useful comments and insights on earlier drafts of this report. Gail Cerra provided critical editorial support.

I would also like to acknowledge the institutional support provided by the Center for Public Management and Regional Affairs at Miami University and its director, Dr. Philip A. Russo, Jr. Data entry was done by Mr. Eric Blenk, a student intern with the Center.

Michael A. Pagano
Center for Public Management and Regional Affairs
and Professor of Political Science, Miami University

MAJOR FINDINGS

A survey of city fiscal conditions was sent to all cities over 50,000 population and a sample of 970 cities with populations between 10,000 and 49,999 in April and May 1991. Questionnaires were received from 525 cities, for a response rate of 36 percent. The following are the major findings from the survey:

General City Fiscal Conditions

- 71.5 percent of all cities are LESS able to meet their cities' financial needs in 1991 than last year.
- 60.9 percent of all cities reported that 1991 General Fund expenditures are expected to exceed revenues, up from 45.5 percent in 1990.
- 26.5 percent of all cities report 1991 expenditures exceed revenues by more than the conventional standard of 5 percent. Cities are experiencing significant BUDGET IMBALANCES at a rate more than double that of any other year in at least the last eight years. Nearly 40 percent of cities in the Western census region and nearly 30 percent of all cities under 100,000 population report such an imbalance.
- Per capita revenue growth for general funds is expected to slow to 2.2 percent between 1990 and 1991 (well below the 4.3 percent inflation rate), down from 6.4 percent in 1989-90 (compared with a 5.4 percent inflation rate). Per capita expenditure growth in 1990-91 was 5.5 percent, only slightly below the 6.6 percent pace in 1989-90.

Fiscal Policy Adjustments

- 84.6 percent of all cities raised taxes or fees or imposed new taxes or fees during the past 12 months. This response varied little by city size, although Northeastern cities were more likely to have raised existing, or imposed new, taxes or fees (97.9 percent).

- 73.1 percent of all cities have responded to their fiscal situations by increasing FEES AND CHARGES; 40 percent have adopted NEW fees.

- 43.4 percent of all cities raised the property tax rate. 85 percent of the cities in the Northeast raised the rate compared with 20 percent in the West.

- 58.5 percent of all cities reduced the growth rate in operating spending; 43.2 percent reduced the actual level of capital spending. 73.6 percent of the Northeastern cities reduced the operating spending growth rate, more than any other region; and 62 percent of Northeastern cities reduced capital spending, again more than cities in other census regions.

- 36.2 percent of the cities FROZE MUNICIPAL HIRING; 23.4 percent of Midwestern cities adopted this policy compared with 51.1 percent of Northeastern cities. In addition, 29.3 percent reduced the number of city employees. Aggregate data show little or no growth in per capita full-time employment and total employment in 1991 (only 1 percent and 0 percent, respectively); part-time employment, however, is down on average by 7.2 percent. For the nation's largest cities (over 300,000 population), part-time employment plummeted by 15.4 percent in per capita terms.

- 9.5 percent of all cities have actually REDUCED CITY SERVICE LEVELS. Service levels have been most frequently affected in the nation's largest cities, where 41.2 percent stated that city service levels were reduced.

Causes of Fiscal Problems

- The culprits in creating difficult city fiscal situations were: city employee HEALTH BENEFITS, mentioned by 87.2 percent of all cities; downturns in the LOCAL ECONOMY, mentioned by 69.5 percent; SOLID WASTE DISPOSAL costs, mentioned by 66.3 percent; change in STATE AID, mentioned by 59.2 percent; and city EMPLOYEE PENSION costs, mentioned by 58.5 percent.

Conclusions

Nearly all American cities (84.6 percent) are very active in responding to their changing fiscal situations. Yet, even as they raise taxes and fees, shift responsibilities, and select other fiscal

policy options, a majority of those cities face a General Fund deficit in 1991. In response to that fiscal situation, fund balances are expected to be drawn down in a majority (59.2 percent) of American cities. Although many of the factors identified by cities as having an unfavorable impact on their ability to balance their budgets can be at least partly controlled by cities (such as health costs, pensions costs, traffic congestion), many others are beyond their immediate control, such as state-imposed tax limitations, the health of the local economy, federal and state aid, and federal and state mandates.

INTRODUCTION

The economic recession that started in 1990 has had repercussions far beyond the worsening unemployment rate, stagnating gross national product, and slow growth in personal income. Municipal governments also suffer the consequences of economic slowdowns. City fiscal conditions are also affected by state limitations on their authority to tax property, retail sales, and income; by private business location decisions; by the level of state and federal aid; by federal and state mandates; and by a host of other factors. Cities' options in response to the recession and other changing conditions range from increasing taxes, fees, and other revenues to eliminating programs, reducing services, and contracting out certain responsibilities. While anecdotes abound on the consequences of these fiscal problems, no national study has yet detailed the breadth and scope of such problems.[1] This report, the ninth installment of a series, is intended to provide a comprehensive analysis of city fiscal conditions in 1991.

The purpose of the study is not only to detail cities' fiscal situations, or to identify important factors affecting their ability to balance budgets, but also to delineate policy actions taken by cities in the past year in order to address their fiscal needs. This report on city fiscal conditions in 1991 is based on questionnaires that were mailed to cities in April and May 1991. The Methodology for this study is found in Appendix A. The preliminary 1990 population figures for cities were used to standardize the financial and employment data for 1989, 1990, and 1991 on a per capita basis. Therefore, for purposes of comparability across cities, all statistical data in this report and in the tables are reported on a per capita basis unless otherwise noted.

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1 See, e.g., David Rosenbaum, "States and Cities with Budget Deficits May Slow Rebound," *New York Times*, May 31, 1991; Michael deCourcy Hinds, "Cash Crises Force Localities in U.S. to Slash Services," *New York Times*, June 3, 1991.

Data for this report are taken from the 525 cities nationwide that responded to the survey, for a response rate of 36 percent (see Appendix B for a list of all responding cities). Based on analysis of regional representation and the city-size response rate, there is no reason to believe that the responding cities are significantly different from non-responding cities. Therefore, comparisons, analyses, and conclusions about city fiscal policies, expenditures and revenue trends, and ending balances among cities of different sizes are valid for cities over 10,000, and not just for those 525 cities.

Nevertheless, it should be remembered that average per capita city revenues and expenditures are influenced by the number and scope of governmental functions. For example, many New England cities are responsible not only for general government functions but also for public education. Some cities are required by their states to assume more social welfare responsibilities than other cities. Some even assume traditional county functions. Cities also vary according to their revenue-generating authority.[2] Some states, notably Kentucky, Ohio, and Pennsylvania, allow their municipalities to tax earnings and income. Other cities, notably those in Colorado, Louisiana, New Mexico, and Oklahoma, depend heavily on sales tax revenues. Consequently, although average per capita data presented in this report allow for cross-city comparisons, there must be an appreciation and understanding of variation among cities. Moreover, state laws may require cities to account for funds in a manner that varies from state to state.

Therefore, because much of the statistical data presented herein are in per capita average terms, they must also be understood within the context of cross-state variation in tax authority, functional responsibility, and state laws. City taxing authority, functional responsibility, and accounting systems vary across the states.

Finally, the dollar amounts presented in this report are current dollars; they have not been deflated. According to data from the National Income and Product Accounts as reported in the Bureau of Economic Analysis, *Survey of Current Business*, the GNP implicit price deflator for the state and local sector was 5.4 percent in 1989 and 5.4 percent in 1990. No state and local price deflator is available yet for 1991, but OMB expects the GNP price deflator to be 4.3 percent in 1991, which is a reasonable substitute for the state and local sector.

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2 For a detailed discussion of local government tax authority, see John H. Bowman and John L. Mikesell, *Local Government Tax Authority and Use* (Washington, DC: National League of Cities, State-Local Backgrounder Series, August 1987).

GENERAL FUND REVENUES AND EXPENDITURES

The survey asked for fiscal information on the city's General Fund only. The general fund is usually thought of as the entity through which most major operations of the governmental unit are conducted. It is the only accounting entity common to most cities and towns. Most cities also account for revenue in an enterprise fund, a capital improvement fund, a debt service fund, trust funds, special revenue funds, and (usually) other smaller funds. Enterprise funds are intended to be financially self-sufficient through service charges; revenues are usually generated through the sale of city services, such as water and sewer, gas and electric, and mass transit services. The capital improvement fund usually receives general tax revenues and bond funds for purposes of building and repairing a city's general infrastructure (but usually does not include facilities financed in the enterprise fund). The debt service fund is set up to receive dedicated revenues used to make principal and interest payments on city debt. Trust funds are established when bequests are made to the city and these funds can be spent only for particular purposes. Special revenue funds are established as accounts for federal or state grants given to finance particular projects. These (and many other ancillary) funds comprise much of what a city finances; but the General Fund finances most cities' common functions. The General Fund finances those general operations of the city that do not have special or dedicated revenue sources.

Consequently, although the survey is not comprehensive of all city finances and funds, it did request data on the most significant and universal city fund. The General Fund is the largest fund of all cities, accounting for an average of 53.1 percent of total city budgets, according to the estimates of 458 survey respondents. And this statistic remains remarkably stable despite differences in city size. The General Fund accounts for approximately 51.1 percent of the total city budgets of the nation's largest cities (cities with populations greater than 300,000), 50.7 percent of the total budget of large cities (cities between 100,000 and 299,999), 56.5 percent of

the total budget of medium-sized cities (cities between 50,000 and 99,999), and 52.5 percent of the total budget of small cities (cities between 10,000 and 49,999).

Revenues and Expenditures

The survey asked for revenues to and expenditures from the General Fund, and for data on the balance at the beginning of the year and the ending year balance for the General Fund. General Fund revenues for the responding cities are expected to average $533 per capita in 1991, an increase of 2.2 percent from the previous year (see Table 1). Because the price deflator for 1991 is expected to be 4.3 percent, this represents a constant dollar decline. Average per capita revenue growth between 1989 and 1990 was 6.4 percent, slightly ahead of the 5.4 percent inflation factor.

This slowdown in 1991 is reflected in all city sizes. The largest cities (those over 300,000 population) are expected to increase their revenues in 1991 by 4.1 percent, or by a rate that was less than half the growth rate in the previous year. A substantial slowdown in the growth rate in 1991 revenues is registered by both large cities (100,000-299,999 population) and small cities (10,000-49,999). The average growth rate in per capita revenues among the large cities is expected to decline by 4.1 percent between 1990 and 1991, and for the small cities the growth rate is expected to slow from 7.0 percent in 1989-90 to 2.7 percent in 1990-91 (see Figure 1).

Per capita average expenditures, on the other hand, are expected to continue to grow in 1991 at a rate only slightly less than the 1990 rate. The average projected growth rate in expenditures for 1991 is 5.5 percent, down from the 6.6 percent rate in 1990. Large cities, which are experiencing the sharpest revenue decline in 1991, are predicted to reduce the average growth rate in 1991 expenditures by 75 percent from the previous year. In 1989, average expenditures per capita were $515; in 1990, it increased 8.8 percent to $560; and in 1991, it is to increase by 2.2 percent to $573. Cities in the other three categories expected increases in expenditures on average between 5.8 and 6.3 percent between 1990 and 1991 (see Figure 2).

The per capita revenue and expenditure data in Table 1 also depict the increasing disparity between revenues and expenditures for the three-year period. For 1989 and 1990, average per capita revenues were greater than average per capita expenditures for all four categories of cities. On average, per capita revenues were 0.5 percent higher than expenditures in 1989 and 0.4 percent higher in 1990. By 1991, per capita expenditures are projected to exceed revenues, on average, by 2.9 percent.

Factor Affecting Revenues and Expenditures

The survey asked that each city identify one factor that most adversely affects its revenues, and one that most adversely affects its expenditures. Nearly half of all cities (43.8 percent) identified the downturn in the economy or the city's declining tax base as the main culprit affecting its revenue stream (see Table 2). By combining the intergovernmental aid categories, one-fourth of all cities targeted the decline in federal and/or state aid as the critical factor.

Table 1
Per Capita Revenues And Expenditures*
(General Fund Only)

	1989	1990	1991	Percent Change 1989-90	Percent Change 1990-91
All Cities (N=510)					
Per Capita Revenue	$489.9	$521.4	$532.9	6.4%	2.2%
Per Capita Expenditure	$487.5	$519.5	$548.1	6.6%	5.5%
Largest Cities (N=35) (pop.: 300,000)					
Per Capita Revenue	$662.5	$702.7	$731.7	6.1%	4.1%
Per Capita Expenditure	$658.0	$700.2	$742.1	6.4%	6.0%
Large Cities (N=56) (pop.: 100,000-299,999)					
Per Capita Revenue	$526.2	$563.7	$540.6	7.1%	-4.1%
Per Capita Expenditure	$515.3	$560.4	$572.9	8.8%	2.2%
Medium Cities (N=106) (pop.: 50,000-99,999)					
Per Capita Revenue	$484.3	$507.5	$526.2	4.8%	3.7%
Per Capita Expenditure	$481.6	$505.3	$537.2	4.9%	6.3%
Small Cities (N=279) (pop.: 10,000-49,999)					
Per Capita Revenue	$462.4	$494.7	$508.1	7.0%	2.7%
Per Capita Expenditure	$462.1	$493.4	$522.1	6.8%	5.8%

* Revenues exclude beginning balance.

Figure 1
Per Capita Revenues
(General Fund only)

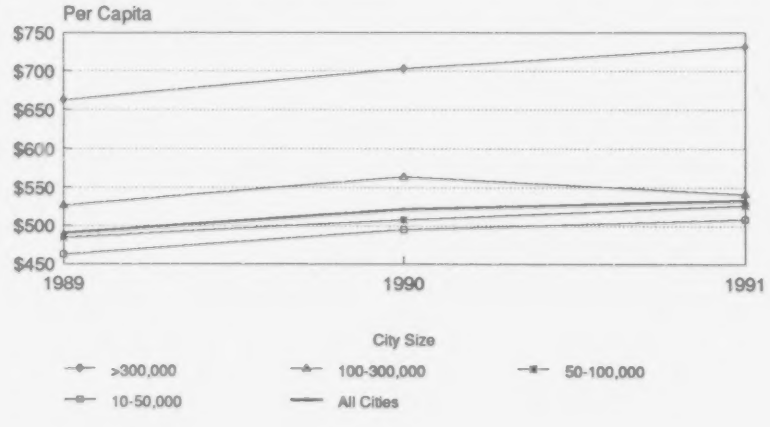


Table 2
The Factor That Most Adversely Affected City Revenues

	Total (N=500)	Largest Cities (N=33)	Large Cities (N=55)	Medium Cities (N=109)	Small Cities (N=303)
Economic downturn or declining tax base	43.8%	66.7%	43.6%	46.8%	40.3%
Decline in state aid	14.0%	9.1%	14.5%	11.0%	15.5%
Decline in federal and state aid	8.6%	0	7.3%	5.5%	10.9%
Decline in federal aid	2.2%	0	0	2.8%	2.6%
Reliance on a slow-growing revenue source	10.8%	12.1%	12.7%	9.2%	10.9%
Taxpayer unwillingness to raise taxes	7.8%	6.1%	3.6%	10.1%	7.9%
Tax and expenditure limitations	7.6%	3.0%	7.3%	7.3%	8.3%
Other	5.2%	3.0%	10.9%	7.3%	3.6%

More than half the respondents (52.9 percent) selected salary-related expenses as the most important factor affecting expenditures (see Table 3). More than one in ten cities identified infrastructure needs (10.3 percent), landfill (10.3 percent), and cost of living escalation (9.7 percent) as the most critical factor affecting expenditures.

Figure 2
Per Capita Expenditures
(General Fund only)

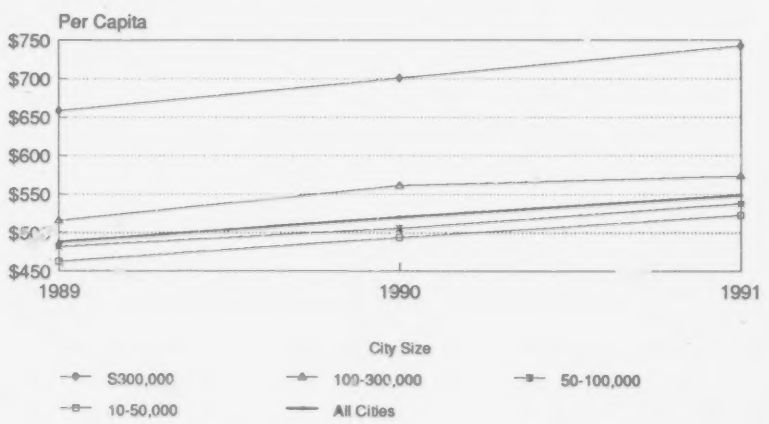


Table 3
The Factor That Most Adversely Affected City Expenditures

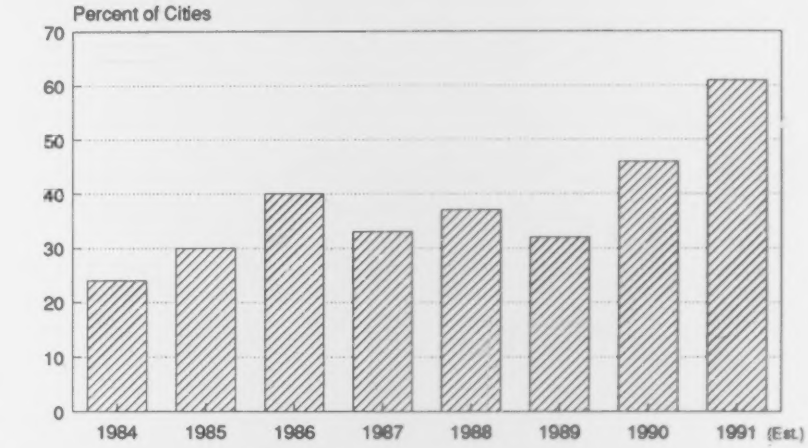
	Total (N=503)	Largest Cities (N=33)	Large Cities (N=57)	Medium Cities (N=113)	Small Cities (N=300)
Salary-related expenses (e.g., health care, pension, compensation)	52.9%	54.5%	61.4%	52.2%	51.3%
Landfill, refuse, solid waste,recycling	10.3%	6.1%	7.0%	8.0%	12.3%
Infrastructure and capital needs	10.3%	0	5.3%	13.3%	11.3%
Increased costs, inflation, cost of living	9.7%	15.2%	7.0%	14.2%	8.0%
Federal and state mandates and other requirements	7.0%	9.1%	8.8%	3.5%	7.7%
Public safety, criminal justice	3.0%	6.1%	3.5%	1.8%	3.0%
Rapid population growth, rapid growth in service demand	2.8%	6.1%	3.5%	2.7%	2.3%
Environmental issues	1.2%	0	1.8%	0.9%	1.3%
Other	2.8%	3.0%	1.8%	3.5%	2.7%

Fund Imbalance

Although cities are prohibited from deficit financing, cities may, and sometimes do, receive fewer revenues than they spend for their operations. Current year expenditures sometimes exceed current year revenues. That is to say, cities sometimes incur a current year General Fund deficit. This deficit can be as little as $1,000 or as high as $2 billion or higher. In 1991, 60.9 percent of all cities expect that General Fund expenditures would exceed General Fund revenues (see Figure 3). This represents a significant increase over the 45.5 percent of cities that actually spent more from their General Fund than they received in 1990, and a substantial increase over the 32.3 percent figure in 1989. In fact, the number of cities predicting their expenditures will outpace revenues in 1991 is higher than any year since 1984, when data were first collected.

The largest cities were more likely to predict a General Fund deficit (73.5 percent) than other categories of cities (see Table 4). In fact, 60.0 percent of the nation's largest cities ended 1990 with a General Fund deficit, compared with 45.5 percent of all cities. An examination of the regional variable in Table 4 shows that a larger percentage of Western cities (68.5 percent) expect a General Fund deficit in 1991 compared with cities in other regions. In 1990, a much smaller proportion (38.9 percent) of Western cities registered a General Fund deficit; this also represents the lowest figure for any of the four census regions. A very similar percentage of Northeastern cities expect a deficit in 1991 (57.9 percent) as actually incurred a deficit in 1990 (51.8 percent). In 1990, a larger percentage of Northeastern cities actually incurred General Fund deficits than cities in any other region; but in 1991, the percentage of Northeastern cities predicting a deficit has increased at a slower growth rate than cities in other regions, from 51.8 percent to 57.9 percent, and is now similar to that of Southern (55.7 percent) and Midwestern (55.1 percent) cities.

Figure 3
Expenditures Exceed Revenues
(General Fund only)



Data from 1984-1989 from earlier reports

Table 4
Percent Of Cities With General Fund Expenditures Exceeding Revenues

	1989	1990	1991
ALL CITIES	32.3%	45.5%	60.9%
City Size			
Largest Cities (pop.: 300,000)	37.1	60.0	73.5
Large Cities (pop.:100,000-299,999)	25.0	44.6	55.6
Medium Cities (pop.: 50,000-99,999)	33.6	43.4	64.9
Small Cities (pop.: 10,000-49,999)	32.6	44.7	58.9
Census Region			
Northeastern Cities	35.6	51.8	57.9
Midwestern Cities	26.6	44.9	55.1
Southern Cities	35.0	48.2	55.7
Western Cities	34.6	38.9	68.5

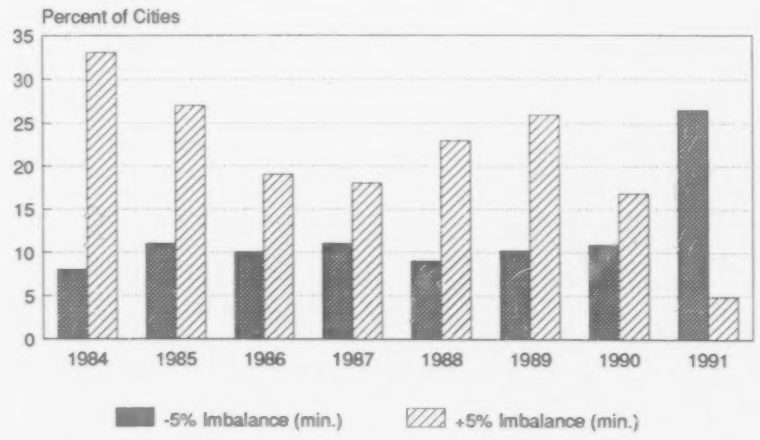
Imbalance Index

Since cities cannot borrow to finance projected operating deficits, those deficits must be financed from other sources, such as ending balances, or cuts must be made in personnel, or service delivery systems altered. One measure of this General Fund imbalance is analyzed here. It is a measure of the General Fund's current year revenues compared with current year expenditures.

The Imbalance Index is measured as: current year revenues minus current year expenditures, divided by current year expenditures. For example, a city with $10 million in expenditures and $11 million in revenues would score a rating on the Imbalance Index of 10 percent. This measure provides one means of understanding how closely projected revenues meet expected budgetary outlays. Cities whose revenues are within 5 percent of expenditures have presumably estimated their revenues and expenditures reasonably well. Cities whose Imbalance Index is worse than -5 percent have faced a worse fiscal situation than expected. Cities with an Imbalance Index better than +5 percent have either intentionally underestimated revenues or overestimated expenditures, or reaped a healthy revenue windfall due to unexpectedly good economic conditions.

In 1991, 26.5 percent of all cities estimated that expenditures would outpace revenues by more than 5 percent. This means more than twice as many cities expect to face a Severe Negative Imbalance this year compared with last year. Comparing the Imbalance Index over the past eight years reveals a sudden burst in cities' experiencing severe revenue shortfalls in 1991 (see Figure 4). In 1984, the first year of data for the Imbalance Index, 33 percent of responding cities fell in the Positive Imbalance category (i.e., revenues exceed expenditures by 5 percent or more) while 8 percent fell in the Severe Negative Imbalance category (i.e., expenditures exceed revenues by more than 5 percent). The trend for Positive Imbalance cities gradually fell to 18 percent in 1987, then increased to 23 percent in 1989 and is projected to drop precipitously to only 4.9 percent in 1991. The trend for Severe Negative Imbalance cities remained fairly constant from 1984 through 1990, ranging from a low of 8 percent in 1984 to a high of 11 percent in 1985, 1987, and 1990.

Figure 4
Imbalances Exceeding 5%
(General Fund only)



Imbalance=(Rev-Exp)/Exp

In 1991, the number is expected to surge to new heights as nearly one-fourth of all cities fall in the Severe Negative Imbalance category.

The regional breakdown illustrates the varied nature of the Imbalance Index. While 14.7 percent of cities in the Northeastern census region report a Severe Negative Imbalance in 1991, nearly 40 percent of cities in the Western census region record a Severe Negative Imbalance (see Figure 5). City size also reveals that the problem is not a universal one. Smaller cities are much more likely to be in the Severe Negative Imbalance category in 1991 than larger cities (see Figure 6). Nearly 30 percent of small and medium cities (with populations between 10,000 and 99,999, or 118 cities) fall in this category, compared with 8.6 percent of the largest cities and 14.8 percent of the large cities.

An examination of the Positive Imbalance over the last three years reveals a city size and regional pattern. A correlation exists between city size and Positive Imbalance for 1989-1991; the smaller the city, the more likely it has to have had a Positive Imbalance (see Figure 7). In 1989, 30.9 percent of all small cities recorded a Positive Imbalance, while 11.1 percent of the largest cities did. During the next two years, the number of cities in the Positive Imbalance category fell dramatically. For 1991, only 7.6 percent of the small cities (22 cities), none of the largest cities, and one each of the large and medium cities estimated a Positive Imbalance in excess of five percent.

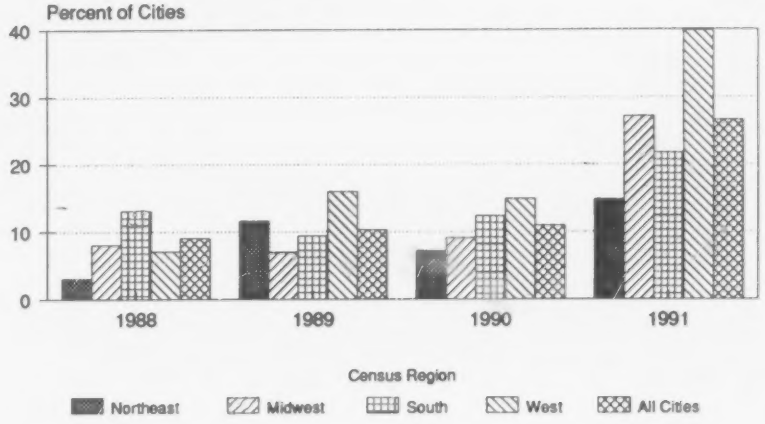
A regional pattern can also be discerned (see Figure 8). The percentage of Western and Midwestern cities with a Positive Imbalance is fairly close over the three-year period. Approximately one-third of those cities in 1989 registered a Positive Imbalance, falling to one-fifth in 1990, and to only 5 or 6 percent in 1991. Southern cities witnessed a similar trend, but with a lower starting point in 1989 (23.6 percent) and reaching a point in 1991 (4.6 percent) not too different from the Western and Midwestern cities. Northeastern cities, on the other hand, placed 9.2 percent of their cities in the Positive Imbalance category in 1989, falling off to 1.3 percent in 1991. The difference between the Midwestern and Western cities on the one hand and the Southern cities on the other had all but disappeared by 1991. Only Northeastern cities are less represented in the Positive Imbalance category than cities from the other three regions.

Revenue Composition of the General Fund

The survey asked respondents to identify the principal revenue sources for the General Fund. An examination of the data in Table 5 helps provide some insight into which revenue sources grew and which ones did not. Because the "Misc. and Other" category is composed of unknown revenues, it is not discussed here.[3]

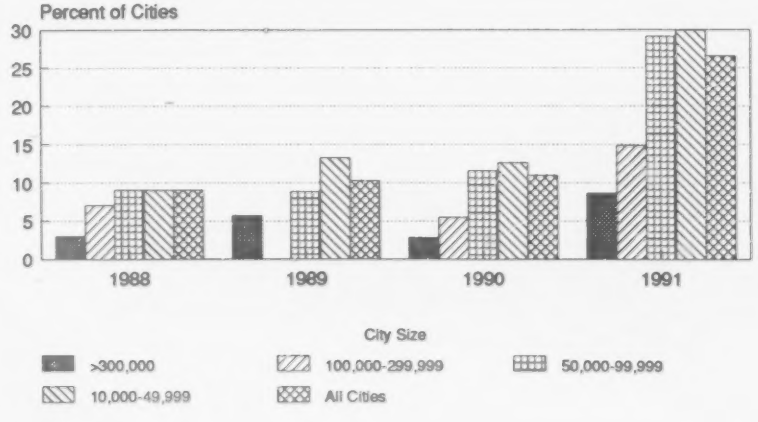
3 The "Misc. and Other" category was calculated as the difference between the sum of all the other categories of revenue (namely, property tax, other tax, fees/charges, state and federal aid) and total revenues for the General Fund (presented above).

Figure 5
Imbalance Exceeding -5%
by Census Region and Year



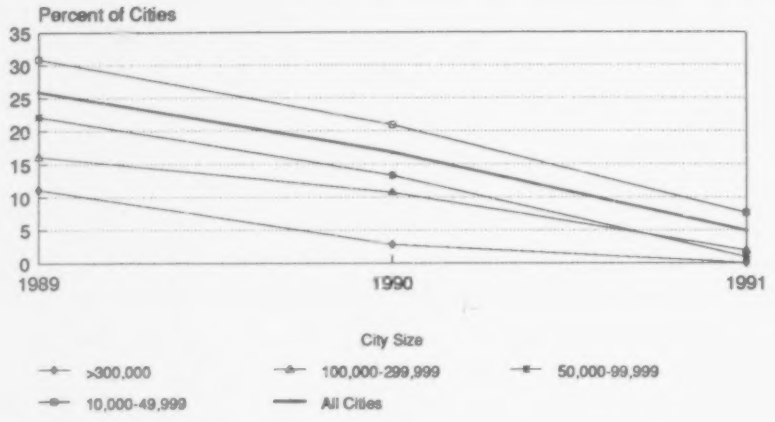
Imbalance = (Rev-Exp)/Exp

Figure 6
Imbalance Exceeding -5%
by City Size and Year



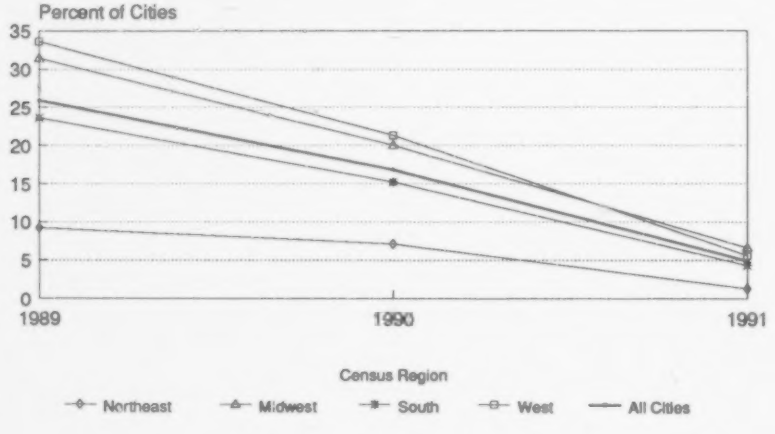
Imbalance=(Rev-Exp)/Exp

Figure 7
Imbalance Better Than +5%
by City Size and Year



Imbalance=(Rev-Exp)/Exp

Figure 8
Imbalance Better Than +5%
by Census Region and Year



Imbalance = (Rev-Exp)/Exp

Table 5
Per Capita Revenue Composition Of General Fund

	1989	1990	1991
ALL CITIES (N=478)			
Property Tax	$179.6	$192.7	$205.0
Other Tax	139.6	146.1	155.1
Fees/Charges	44.4	47.1	51.5
State Aid	78.2	82.7	84.4
Federal Aid	14.1	13.8	15.9
Misc. and Other	34.0	39.0	21.0
TOTAL	489.9	521.4	532.9
Largest Cities (N=36) (pop.: 300,000)			
Property Tax	$183.3	$196.4	$201.9
Other Tax	238.1	244.8	247.0
Fees/Charges	60.1	65.3	66.3
State Aid	125.4	133.7	138.3
Federal Aid	26.7	28.7	28.8
Misc. and Other	28.9	33.8	49.4
TOTAL	662.5	702.7	731.7
Large Cities (N=58) (pop.: 100,000-299,999)			
Property Tax	$183.6	$198.9	$189.7
Other Tax	167.9	176.8	187.5
Fees/Charges	51.4	56.2	57.3
State Aid	78.6	81.6	78.8
Federal Aid	6.4	6.0	5.7
Misc. and Other	38.3	44.2	27.3
TOTAL	526.2	563.7	540.6
Medium Cities (N=107) (pop.: 50,000-99,999)			
Property Tax	$188.6	$201.1	$216.9
Other Tax	133.7	140.2	145.3
Fees/Charges	46.2	47.6	50.1
State Aid	72.6	75.5	74.0
Federal Aid	11.3	12.6	13.4
Misc. and Other	31.9	30.5	26.5
TOTAL	484.3	507.5	526.2
Small Cities (N=277) (pop.: 10,000-49,999)			
Property Tax	$174.9	$187.8	$204.1
Other Tax	120.1	126.4	137.1
Fees/Charges	40.2	42.8	46.9
State Aid	74.1	79.2	82.4
Federal Aid	16.1	14.2	17.9
Misc. and Other	37.0	44.3	17.7
TOTAL	462.4	494.7	508.1

Property Taxes

Average per capita property tax revenue grew at a rather robust rate over the three-year period. Between 1989 and 1990, per capita property tax revenues grew at an average rate of 7.3 percent, and in 1990-1991 they are expected to grow by 6.4 percent. Growth in property tax revenues benefited medium-sized and small cities more than the larger cities. Indeed, the 1990-91 change in average per capita property tax revenues registered a decline of 4.4 percent for cities between

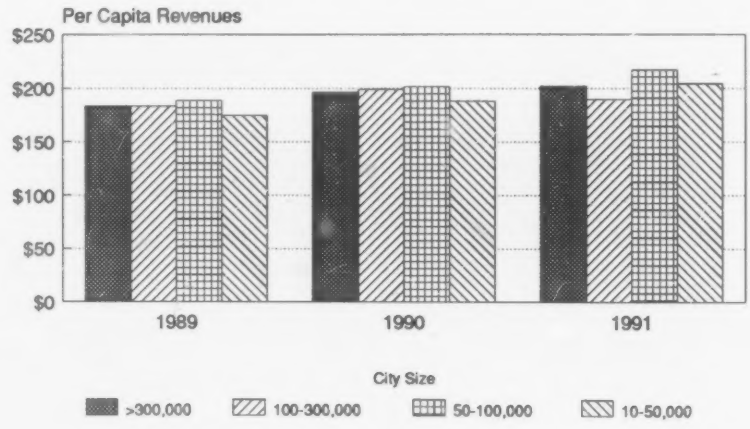
Table 6
Property Tax

	Percent Change 1989-90	Percent Change 1990-91
Largest Cities	7.1%	2.8%
Large Cities	8.3%	-4.4%
Medium Cities	6.6%	7.9%
Small Cities	7.4%	8.7%
ALL CITIES	7.3%	6.4%

100,000 and 299,999. Further, while there was growth in the per capita property tax revenues for these large cities between 1989 and 1991, it was only 3.3 percent, well below the 14.1 percent growth rate during the same three-year period for all cities.

The per capita revenue amounts for the General Fund are quite similar for all city sizes (see Figure 9). Larger cities do not impose a higher per capita property tax burden for their General Fund than smaller cities. The largest per capita amount in 1991 is from medium cities ($217) and the smallest is from large cities ($190). The difference of 14 percentage points between these extremes is minor compared with the differences in changes in other revenue sources.

Figure 9
Property Tax Revenue
(General Fund only)



Other Taxes

The "other tax" category also is projected to increase overall by a strong 6.2 percent in 1990-91, after a 4.6 percent increase in 1989-90. This category encompasses local option income and sales taxes, tax privileges shared by more of the larger cities than their smaller counterparts, and also license taxes, franchise fees, severance tax, inventory tax, and so on. This explains the strong correlation between city size and per capita revenues. The largest cities expect to receive $247 per capita on average from this revenue source in 1991, while the small cities project $137 per capita. Even though it is the largest contributor to the General Fund, the growth in this revenue source has been quite modest for the largest cities, averaging 0.9 percent in the last year.

Table 7
Other Tax Revenues

	Percent Change 1989-90	Percent Change 1990-91
Largest Cities	2.8%	0.9%
Large Cities	5.3%	6.1%
Medium Cities	4.9%	3.6%
Small Cities	5.2%	8.5%
ALL CITIES	4.7%	6.2%

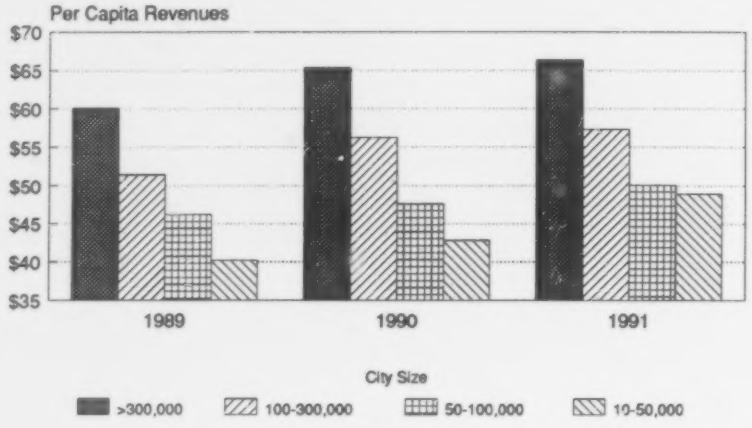
Fees and Charges

The most robust revenue source for the General Fund for the past three years has been the "fees and charges" category. It should be noted that since the General Fund does not normally finance city utilities, such as water and sewer, this category of fees and charges does not incorporate to those user-fee financed utilities; rather, it refers to the financing of other city services such as parks and recreation fees, library fees, building permit fees, etc. This category grew by an average of 6.1 percent in 1989-90 and is expected to grow by 9.3 percent in 1990-91. Cities of all sizes registered a growth in this category. Small cities were clearly the leaders by projecting increases in the growth rate by 14.3 percent in the past year, while the largest cities register the slowest

Table 8
Fees And Charges

	Percent Change 1989-90	Percent Change 1990-91
Largest Cities	8.7%	1.5%
Large Cities	9.3%	2.0%
Medium Cities	3.0%	5.3%
Small Cities	6.5%	14.3%
ALL CITIES	6.1%	9.3%

Figure 10
Fees and Charges
(General Fund only)



growth rate, 1.5 percent. Nevertheless, the largest cities expect to receive more revenue per capita from this source than smaller cities, generating $66 per capita compared with smaller cities' $49 (see Figure 10).

State and Federal Aid

After property tax and "other" tax revenue, state aid is the largest source of revenue for the General Fund. State aid, after increasing by 5.6 percent in 1989-90, is expected to slow to a 2.1 percent growth rate in 1990-91.[4] The largest and smallest cities have benefited more by state aid increases than the medium and large cities. The latter group actually expects to receive a smaller per capita amount of state aid in 1991 than in 1990.

Finally, the intergovernmental aid dimension shows that federal aid is a relatively minor factor in the General Fund, averaging $16 per capita in 1991 and 3 percent of total General Fund revenues.

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4 In a study of state aid to local governments, Gold and Erickson concluded that state beneficence was more prevalent in good economic times than in poor ones. Given the slowdown in the economy, a slower growth rate in state aid is not unexpected. See Steven Gold and Brenda Erickson, *State Aid to Local Governments in the 1980s*, Legislative Finance Paper no. 63 (Denver: National Conference of State Legislatures, 1988).

Table 9
State And Federal Aid

	Percent Change 1989-90	Percent Change 1990-91
Largest Cities	6.6%	3.4%
Large Cities	3.8%	-3.4%
Medium Cities	4.0%	-2.0%
Small Cities	6.9%	4.0%
ALL CITIES	5.6%	2.1%

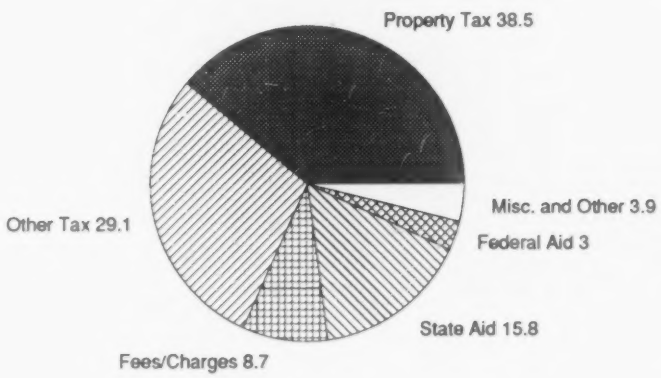
Revenue Shares of General Fund

The proportional contribution of the selected revenue sources to the General Fund has changed little over the past three years. As Table 10 illustrates, the property tax for all cities is only slightly

Table 10
Change In Revenue Composition Of General Fund

	Percent Change 1989-90	Percent Change 1990-91
ALL CITIES (N=478)		
Property Tax	7.3%	6.4%
Other Tax	4.7%	6.2%
Fees/Charges	6.1%	9.3%
State Aid	5.6%	2.1%
Largest Cities (N=36) (pop.: 300,000)		
Property Tax	7.1%	2.8%
Other Tax	2.8%	0.9%
Fees/Charges	8.7%	1.5%
State Aid	6.6%	3.4%
Large Cities (N=58) (pop.: 100,000-299,999)		
Property Tax	8.3%	-4.4%
Other Tax	5.3%	6.1%
Fees/Charges	9.3%	2.0%
State Aid	3.8%	-3.4%
Medium Cities (N=107) (pop.: 50,000-99,999)		
Property Tax	6.6%	7.9%
Other Tax	4.9%	3.6%
Fees/Charges	3.0%	5.3%
State Aid	4.0%	-2.0%
Small Cities (N=277) (pop.: 10,000-49,999)		
Property Tax	7.4%	8.7%
Other Tax	5.2%	8.5%
Fees/Charges	6.5%	14.3%
State Aid	6.9%	4.0%

Figure 11
Revenue Composition, 1991
All Cities



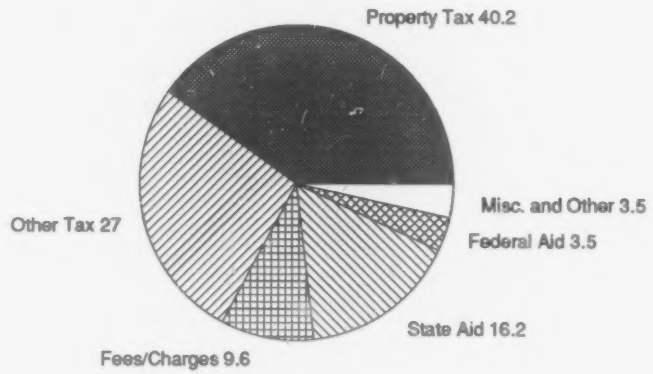
(Per Cent Revenue Composition)

more prominent in 1991, accounting for 38.5 percent of the General Fund's revenue, than in 1989, when it accounted for 36.7 percent (see Figure11). The contribution of "other" taxes has remained fairly constant between 1989 and 1991 at around 29 percent for all categories of cities, with state aid at 16 percent, fees and charges at between 9 and 10 percent, and federal aid at 3 percent.

The property tax accounts for almost 40 percent of the General Fund revenues in 1991 for medium and small cities, and is clearly the most prolific revenue generator (see Figures 12 and 13). For the nations' largest and large cities (over 100,000 population), the property tax, while still important, does not hold quite the prominence it does with smaller cities. For large cities it is expected to generate 35.1 percent of total General Fund revenues in 1991, while other taxes generate an almost identical 34.7 percent (see Figure 14). The largest cities, however, depend more on "other" taxes, 33.8 percent, than on the property tax, 27.6 percent (see Figure 15). This is due in part to the largest cities' access, in many cases, to local option sales and income taxes that are prohibited for smaller cities. Small and medium cities are much more dependent on the property tax for their revenues than larger cities.

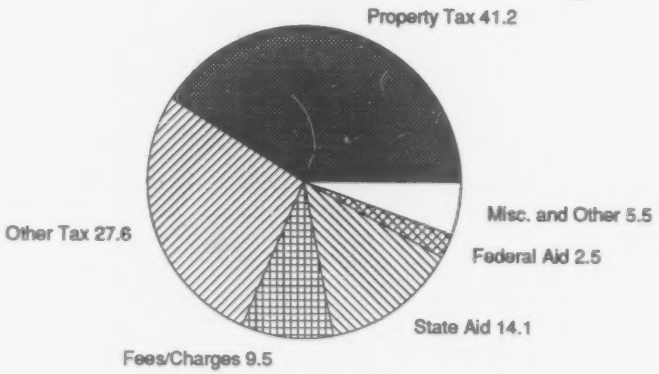
The contribution of the remaining revenue sources to the General Fund is generally consistent regardless of city size. State aid accounts for between 14 and 19 percent of total General Fund revenues, fees and charges contribute 9 percent, federal aid amounts to between 1 and 4 percent, and miscellaneous and other revenues, 3 to 7 percent.

Figure 12
General Fund Revenues, 1991
Small Cities



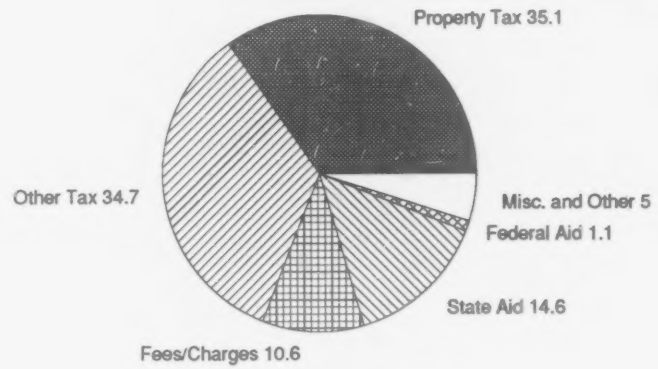
(Per Cent Revenue Composition)

Figure 13
General Fund Revenues, 1991
Medium Cities



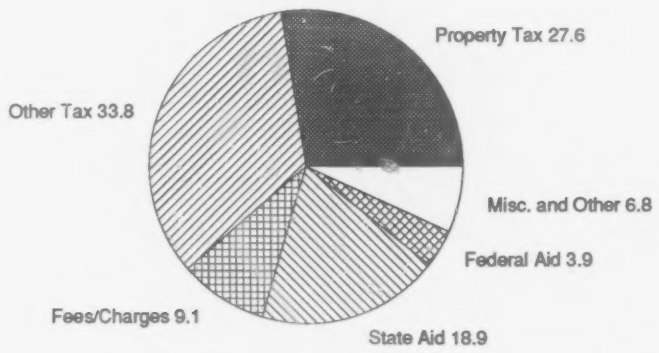
(Per Cent Revenue Composition)

Figure 14
General Fund Revenues, 1991
Large Cities



(Per Cent Revenue Composition)

Figure 15
General Fund Revenues, 1991
Largest Cities



(Per Cent Revenue Composition)

Long-Term Debt Outstanding

The final financial category for which information was requested is long-term debt outstanding, the general obligation debt of the city. General obligation debt is borrowed funds for a city's capital infrastructure. It does not represent annual expenditures, nor does it usually represent revenue-backed debt of the city, such as water and sewer revenue debt, although on occasion some revenue bond borrowing is done for general government purposes. Rather, long-term debt outstanding is the accumulated amount of principal the city still owes on its tax-supported general obligations.

Table 11 illustrates that the trend over the past three years is one of slowing growth in long-term debt. After a 6.4 percent increase in long-term debt from 1989 to 1990, the growth rate of borrowing is expected to slow to only 3.8 percent in 1990-91. Large and medium cities project a reduction in their growth rate much more severely than the other city categories, falling to 0.8 percent and 2.0 percent, respectively. Per capita average indebtedness increases as the size of the city increases. The larger the city, the higher per capita long-term debt outstanding. The largest cities increased their per capita debt from $527 in 1989 to $60? in 1991, a three-year increase of 14.2 percent. The small cities' per capita long-term debt wa $2[illegible] 1989 and $315 in 1991.

The data from the responding cities suggest that cities, save [illegible]ation's largest, did cut back on city issued long-term debt during 1991. The 1989-90 growth rate of 6.5 percent is slightly more than the 5.4 percent implicit price deflator for state and local governments; the projected average growth rate of 3.8 percent in long-term debt outstanding for 1990-91 is below the expected inflation rate of 4.3 percent for 1991. This implies a reduction in at least constant dollar city borrowing.

Table 11
Per Capita Long-Term Debt Outstanding

	1989	1990	1991	Percent Change 1989-90	Percent Change 1990-91
ALL CITIES (N=433)	$319.1	$339.6	$352.5	6.4%	3.8%
Largest Cities (N=32) (pop.: 300,000)	$527.2	$563.7	$601.8	6.9%	6.8%
Large Cities (N=53) (pop.: 100,000-299,999)	$383.8	$399.2	$402.5	4.0%	0.8%
Medium Cities (N=99) (pop.: 50,000-99,999)	$316.1	$330.2	$336.8	4.5%	2.0%
Small Cities (N=249) (pop.: 10,000-49,999)	$279.7	$301.8	$314.8	7.9%	4.3%

COPING WITH THE CHANGING FISCAL ENVIRONMENT

In response to cities' changing fiscal environments, the nation's cities of all sizes and in all locations searched for new revenues, appropriate areas to cut, and innovative ways to maintain service delivery. In the last 12 months, taxes were raised or new ones imposed and user fees and development fees were raised or imposed in nearly every city regardless of size (see Table 12). Eighty-five percent of all cities raised or imposed new taxes or fees during the past year, ranging from 90.9 percent of the largest cities to 82.7 percent of the smallest cities. Northeastern cities were more likely to have raised taxes or fees (97.9 percent) than cities from other regions, and 75.0 percent of Midwestern cities raised taxes or fees.

Table 12
Cities That Raised Existing Or Imposed New Taxes Or Fees

	Percent	Number
TOTAL	84.6%	439
Largest Cities	90.9%	30
Large Cities	87.9	51
Medium Cities	87.7	100
Small Cities	82.7	258
Northeastern Cities	97.9%	92
Midwestern Cities	81.6	142
Southern Cities	87.9	124
Western Cities	75.0	81

Taxes and Fees

The nearly universal response to the fiscal squeeze of 1991 was not unexpected; in fact, increasing the level of user fees and charges has been one of the most ubiquitous policy actions of cities for many years.[5] Nearly three of every four cities raised at least one category of user fees and charges in 1991 (see Table 13), nearly the same percentage of cities as in 1990, when 76 percent indicated such an action. Slightly less than three-fourths of small cities (72.9 percent) raised fees and charges, while nearly nine in ten of the nation's largest cities (88.2 percent) hiked fees. Cities in the Northeast census region were slightly more likely (83.9 percent) to raise fees than their counterparts in the South (70.9 percent).

Table 13
Cities That Have Taken The Following Action During The Past 12 Months

	Total Percent	Largest Cities Percent	Large Cities Percent	Medium Cities Percent	Small Cities Percent
Increased level of fees/charges	73.1	88.2	77.2	73.7	72.9
Reduced growth rate in operating spending	58.5	78.8	74.1	66.1	53.4
Increased property tax rates	43.4	39.4	36.2	48.2	44.6
Reduced actual level of capital spending	43.2	45.5	48.2	50.0	41.2
Implemented new fees/charges	40.0	54.5	49.1	36.6	39.9
Contracted out services	36.6	43.8	39.7	42.6	34.1
Froze municipal hiring	36.2	61.8	58.6	48.7	25.5
Reduced number of city employees	29.3	54.5	31.6	37.2	24.3
Imposed or raised development or impact fees	22.9	27.3	28.1	22.1	22.7
Increased rates of other taxes	13.3	29.4	20.7	14.9	10.0
Implemented a new tax or taxes	11.4	23.5	19.3	8.8	10.0
Reduced city service levels	9.5	41.2	8.6	11.5	5.8
Increased sales tax rates	4.4	0	1.7	4.3	5.5
Shifted service responsibilities to another government	3.4	12.1	5.3	3.5	2.3
Increased income tax rates	1.1	0	1.7	0.9	1.3

Further, 40 percent of the responding cities adopted *new* fees and charges for at least one city service. Again, city size and region were not major factors in explaining that fiscal policy action. The range was from 36.6 percent for medium cities to 54.5 percent for the largest cities, and from 31.5 percent for Midwestern cities to 56.5 percent for Northeastern cities. Finally, the only other fee-related action on the list of fiscal policy options was the imposition of new, or raising of existing, development or impact fees. Again, city size is unimportant in explaining this action, adopted by 22.9 percent of all cities. Region, however, is, as nearly two of five Western cities

5 See earlier *City Fiscal Condition* reports from the National League of Cities for data on city fiscal policy actions.

(38.9 percent) imposed or raised development or impact fees, compared with 13.2 percent of Midwestern cities.

Cities in 1991 have adopted a range of tax rate adjustments in response to their fiscal positions. More cities raised the property tax rate (43.4 percent) than raised the rates of "other" taxes (11.4 percent), the local option sales tax rate (4.4 percent), the local option income tax rate (1.1 percent), or than those that adopted a new tax (11.4 percent). Although there is little variation in the making of property tax rates according to city size, there is variation by region: Northeastern cities (85.1 percent) were more likely to increase the millage on property than Southern (45.4 percent), Midwestern (35.6 percent), or Western (20.4 percent) cities (see Table 14). Some caution must be taken in interpreting this latter point. Most of the responding cities in the Western census region (54.5 percent) are California cities that have been effectively shut off from raising the property tax rate for over a decade due to the state's tax and expenditure limitations. That fact accounts for the low percentage of Western cities' adopting this option.

Table 14
Cities That Have Taken The Following Action During The Past 12 Months

	Total Percent	Northeast Cities Percent	Midwest Cities Percent	South Cities Percent	West Cities Percent
Increased level of fees/charges	73.1	83.9	73.4	70.9	73.1
Reduced growth rate in operating spending	58.5	73.6	53.2	64.0	55.1
Increased property tax rates	43.4	85.1	35.6	45.4	20.4
Reduced actual level of capital spending	43.2	62.0	36.0	41.3	45.9
Implemented new fees/charges	40.0	56.5	31.5	40.0	44.5
Contracted out services	36.6	39.1	31.6	41.1	39.4
Froze municipal hiring	36.2	51.1	23.4	40.0	41.8
Reduced number of city employees	29.3	53.8	25.3	29.1	17.6
Imposed or raised development or impact fees	22.9	30.8	13.2	20.1	38.3
Increased rates of other taxes	13.3	17.0	6.4	13.6	22.2
Implemented a new tax or taxes	11.4	7.5	12.0	7.2	20.2
Reduced city service levels	9.5	14.1	6.9	8.5	11.9
Increased sales tax rates	4.4	1.1	4.0	6.4	5.5
Shifted service responsibilities to another government	3.4	3.3	5.7	2.1	1.8
Increased income tax rates	1.1	0	2.9	0.7	0

The nation's largest cities were more likely to have increased the rate of "other" taxes (e.g., license taxes, franchise fees, inventory taxes, severance taxes) than other cities, with 29.4 percent taking this action, compared with 10 percent of the small cities. Likewise, the largest cities were more likely to implement new taxes (23.5 percent) than small (10 percent) and medium (8.8 percent) cities. Cities in the West census region were more likely to increase rates of "other" taxes (22.2 percent) and to have adopted new taxes (20.2 percent) than their counterparts elsewhere, although nearly the same percentage of Northeastern cities (17.0 percent) as Western cities reported increasing the rate of "other" taxes.

Budgets

Next to increasing fees and tax rates as a means of coping with the changing fiscal environment, a substantial majority of American cities (58.5 percent) in 1991 have slowed the rate of growth in their operating budgets. The largest and large cities (cities over 100,000) were more likely to have reduced the growth rate in their operating budgets than cities under 100,000 (medium and small cities). Nearly four in five of the largest cities (78.8 percent) and three-fourths of the large cities (74.1 percent) reduced the growth rate, compared with slightly more than half of the nation's small cities (53.4 percent). Moreover, nearly three-fourths of Northeastern cities (73.6 percent) reduced their operating budgets' growth rate, an action adopted by slightly more than half of the Midwestern (53.2 percent) and Western (55.1 percent) cities.

In addition, slightly less than half of all cities reduced the actual spending levels in their capital budgets (43.2 percent). City size is not an important factor in explaining the reduction in capital spending. Region, however, is, as capital spending was more likely to have been reduced in Northeastern cities (62.0 percent) than in cities elsewhere.

Another budgetary option allows cities to contract out services to another party. Nearly one-third of all cities adopted this policy option (37.2 percent) with little significant regional or city size variation. By way of illustration, the variation in adopting this policy ranged from 34.1 percent of the small cities to 43.8 percent of the largest cities, and from 31.6 percent of Midwestern cities to 41.1 percent of Southern cities.

Reductions

In addition to adjusting overall capital and operating spending, several non-tax options are available to cities in order to cope with their fiscal problems. One of those options is to adjust the number of employees. A substantial number of cities responded to the fiscal policy action question as having reported that municipal hiring has either been frozen in 1991 (36.2 percent) or that the number of city employees has actually been reduced (29.3 percent).

Statistical data were also requested on city employment.[6] Tables 15, 16, and 17 present those responses in the categories of full-time employment, part-time employment, and total employment. [7] Per capita full-time employment increased by 3.1 percent in 1989-90, and is expected to slow to just 1 percent in 1990-91 (see Figure 16). Larger cities have more municipal employees per 1,000 population and did increase their employment slightly in 1990. However, their growth

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6 Data on employment patterns by function (e.g., public safety, transportation) were collected but are not reported here. Variation in per capita employment patterns for these categories was not significant across time, by region, nor by city size.

7 The sum of full-time and part-time employment ought to add up to total employment. Nevertheless, many respondents provided partial data; consequently, the sum of full- and part-time does not equal total employment. Moreover, the survey asked for the number of part-time employees, not Full Time Equivalents.

Table 15
Per Capita Full-Time Employment

	1989	1990	1991	Percent Change 1989-90	Percent Change 1990-91
ALL CITIES (N=448)	.0096	.0099	.0100	3.1%	1.0%
Largest Cities (N=26) (pop.: 300,000)	.0138	.0139	.0141	0.7%	1.4%
Large Cities (N=52) (pop.: 100,000-299,999)	.0105	.0107	.0109	1.9%	1.9%
Medium Cities (N=103) (pop.: 50,000-99,999)	.0092	.0093	.0093	1.1%	0.0%
Small Cities (N=268) (pop.: 10,000-49,999)	.0092	.0096	.0096	4.3%	0.0%

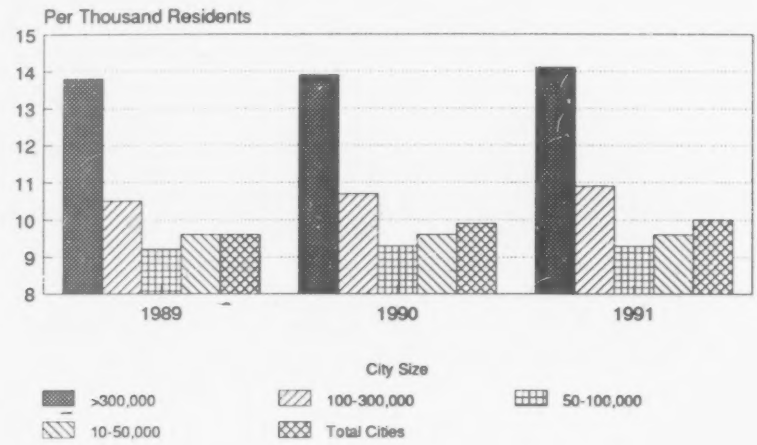
Table 16
Per Capita Part-Time Employment

	1989	1990	1991	Percent Change 1989-90	Percent Change 1990-91
ALL CITIES (N=395)	.0027	.0028	.0026	3.7%	-7.2%
Largest Cities (N=23) (pop.: 300,000)	.0014	.0013	.0011	-7.1%	-15.4%
Large Cities (N=40) (pop.: 100,000-299,999)	.0018	.0019	.0018	5.6%	-5.3%
Medium Cities (N=85) (pop.: 50,000-99,999)	.0026	.0026	.0024	0.0%	-7.3%
Small Cities (N=247) (pop.: 10,000-49,999)	.0029	.0031	.0029	6.9%	-6.5%

rate for the previous year was considerably lower than for other cities. Total city employment is expected to register no increase in 1991; in fact, for medium and small cities, per capita total employment actually is predicted to fall (see Figure 17).

An important municipal adjustment in 1991 has been in the part-time employment arena. After a modest increase of 3.7 percent between 1989 and 1990, part-time employment is expected to drop precipitously between 1990 and 1991 by an average of 7.2 percent (see Figure 18). The nation's largest cities in particular are expected to reduce this employment category, cutting it more than 15 percent after a 7 percent reduction the previous year. No other group of cities more drastically altered their per capita part-time employment levels than the largest cities. Further, although the largest cities have the most number of total and full-time employees per capita, they had the lowest per capita part-time employment average.

Figure 16
Full-Time City Employment



A second reduction strategy is to undertake actual cuts in city service levels. Fewer than one in ten cities elected to reduce service levels in 1991. Presumably, gains in administrative efficiency and productivity, and alternative arrangements for delivering services (such as contracting out, which was adopted by one-third of the respondents), have kept service levels fairly stable for most cities. One important exception should be noted. While cities in all regions of the country reported that they are maintaining service levels, the nation's largest cities have actually reduced

Table 17
Per Capita Total Employment

	1989	1990	1991	Percent Change 1989-90	Percent Change 1990-91
ALL CITIES (N=433)	.0121	.0124	.0124	2.5%	0.0%
Largest Cities (N=34) (pop.: 300,000)	.0146	.0147	.0148	0.7%	0.7%
Large Cities (N=48) (pop.: 100,000-299,999)	.0120	.0122	.0123	1.7%	0.8%
Medium Cities (N=96) (pop.: 50,000-99,999)	.0115	.0116	.0115	0.9%	-0.9%
Small Cities (N=255) (pop.: 10,000-49,999)	.0121	.0125	.0124	3.3%	-0.8%

Figure 17
Total City Employment

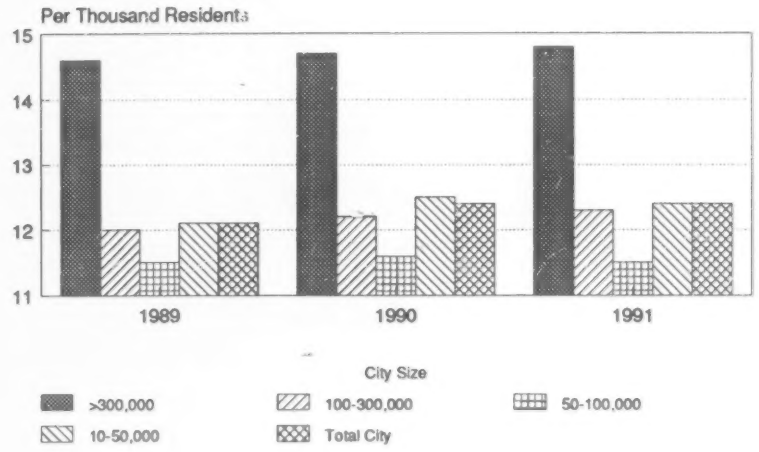
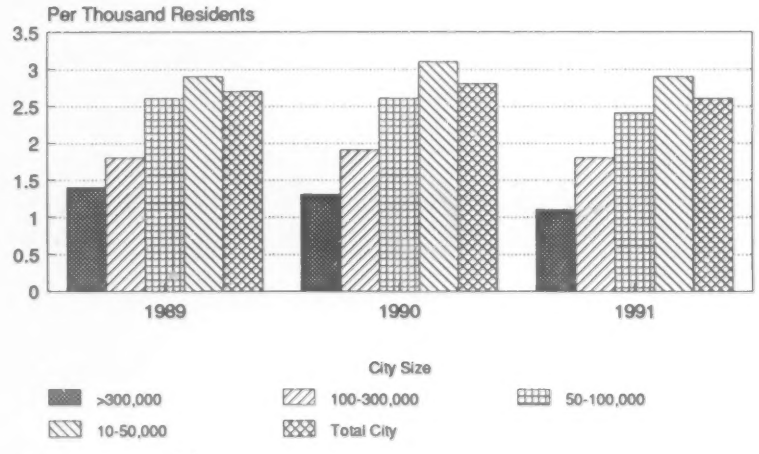


Figure 18
Part-Time City Employment



service levels. More than two of five of the largest cities (41.2 percent) identified actual reduction in services as a coping strategy, a considerably higher number than for any other group. In fact, 5.8 percent of the small cities and 8.6 percent of the large cities reduced services.

Finally, cities sometimes pursue the option of shifting service responsibilities to other levels of government, although only a small minority have actually done so. The larger the city, however, the more likely that the policy option of shifting service-delivery responsibility has been adopted. While 2.3 percent of the small cities indicated this action, 12.1 percent of the largest cities did so.

FACTORS AFFECTING CITIES' ABILITY TO BALANCE THEIR BUDGETS

The survey asked cities to assess the impact of 15 factors on their ability to balance budgets (see Tables 18 and 19). The most consistently mentioned factor was the cost of employee health benefits. Nearly nine of ten cities in all regions of the country and of all sizes selected this factor. No other factor so dominated the list. The next most frequently selected factor was the change in local economic conditions, selected by seven of ten cities of all sizes as adversely affecting the cities' ability to balance their budgets. Nearly three in five cities in the Midwestern census region (58.4 percent), while still quite affected by changing economic conditions, identified those conditions as unfavorable, compared to 79.4 percent of Southern cities and 78.9 percent of Northeastern cities.

Not all cities are hurt by current economic conditions. In fact, 12.8 percent found local economic conditions favorable to their fiscal situation and 15.8 percent responded that conditions had changed little in the past year. Cities responding that economic conditions were either favorable or didn't make a difference varied little according to city size. Again, Midwestern cities were more likely to have identified the local economy as having improved or changed little.

Approximately three-fifths of the cities identified one factor beyond their control, changes in the amount of state aid to cities (59.2 percent), and two others, the costs of solid waste disposal (66.3 percent) and employee pension costs (58.5 percent), as hampering their ability to balance the budget. A higher percentage of the nation's largest cities reported having high costs in disposing of their solid wastes compared with other city size categories. In fact, next to health benefit costs, this was selected by more of the largest cities (84.8 percent) than any other factor. By way of comparison, a smaller, yet still significant, 58.4 percent of the medium cities selected this factor as unfavorably affecting their ability to balance budgets.

Table 18
Factors That Have Adversely Affected Cities' Ability To Balance Budget

	Total Percent	Largest Cities Percent	Large Cities Percent	Medium Cities Percent	Small Cities Percent
Cost of employee health benefits	87.2	90.6	89.7	91.2	87.8
Change in the local economy	69.5	79.4	77.6	73.2	68.1
Costs of solid waste disposal	66.3	84.8	72.4	58.4	67.9
Change in amount of state aid	59.2	55.9	65.6	64.3	58.1
Employee pension costs	58.5	51.5	60.3	61.4	59.5
Sewage (wastewater) collection and treatment	53.1	48.5	55.2	52.2	55.5
Demand for traffic improvements	50.7	56.3	69.0	47.4	50.0
Change in amount of federal aid to city	48.6	65.6	63.8	52.7	44.5
Demands for drug law enforcement	43.6	78.8	58.6	52.2	35.8
Liability claims/awards against city	41.0	63.3	53.4	50.9	33.9
State tax limitations on cities	40.0	42.4	56.9	44.2	36.5
Drinking water standards (EPA)	34.3	36.4	42.1	35.4	33.4
Savings and loan foreclosed property not paying taxes	14.3	34.4	26.3	11.6	11.6
Demands for drug treatment	13.0	37.5	22.4	13.2	9.1
Savings and loan foreclosed property reducing tax base	9.1	28.1	21.1	8.0	5.8

Table 19
Factors That Have Adversely Affected Cities' Ability To Balance Budget

	Total Percent	Northeast Cities Percent	Midwest Cities Percent	South Cities Percent	West Cities Percent
Cost of employee health benefits	87.2	89.2	90.8	90.0	84.3
Change in the local economy	69.5	78.9	58.4	79.4	73.6
Costs of solid waste disposal	66.3	72.8	67.2	73.9	54.6
Change in amount of state aid	59.2	83.0	52.9	61.3	50.5
Employee pension costs	58.5	57.6	67.4	57.4	50.9
Sewage (wastewater) collection and treatment	53.1	57.6	52.9	61.3	44.4
Demand for traffic improvements	50.7	39.6	54.3	48.9	62.6
Change in amount of federal aid to city	48.6	44.6	48.3	55.6	49.1
Demands for drug law enforcement	43.6	35.9	42.7	44.3	56.5
Liability claims/awards against city	41.0	42.4	36.6	37.3	55.1
State tax limitations on cities	40.0	31.5	44.8	39.4	44.4
Drinking water standards (EPA)	34.3	30.4	29.5	44.4	35.5
Savings and loan foreclosed property not paying taxes	14.3	22.0	3.5	24.1	14.0
Demands for drug treatment	13.0	8.7	13.9	16.4	12.0
Savings and loan foreclosed property reducing tax base	9.1	5.5	1.2	22.1	9.3

As mentioned earlier, state aid is one of the largest revenue categories for cities' General Funds. Any reduction in that category would certainly have an unfavorable impact on city finances. In fact, as federal aid continues to remain a relatively minor proportion of General Fund revenues for cities, monitoring changes in state aid will become increasingly critical. In the 1990 survey, 69 percent of the cities cited this external factor (that is, a factor outside the city's control), the decline in federal aid, as having had an unfavorable impact on their budgets. This year, in 1991,

slightly less than half the cities chose that descriptor. City size matters here, though region doesn't. Almost two-thirds of the largest cities (65.5 percent), 63.8 percent of the large cities, 52.7 percent of the medium cities, and less than half of the small cities (44.5 percent) selected the factor regarding change in federal aid.

A change in state aid, on the other hand, was selected by 54 percent in the 1990 survey and by a slightly higher proportion of the respondents in 1991 (59.2 percent). This external factor was selected whether the city was large or small, although region does make a difference: 83.0 percent of Northeastern cities selected this factor, compared with 53.9 percent in the Midwest. Of all the unfavorable factors affecting Northeastern cities' budgets, changes in state aid ranked a close second to health benefit costs. For Midwestern cities, the rank-ordering was different in that changes in state aid ranked a distant sixth.

City taxing authority derives from state statutory and constitutional limitations. When asked whether these limitations had an unfavorable impact on cities' ability to balance budgets, 40 percent responded that it did. Large cities selected this external factor more often (56.9 percent) than other cities, and 35.6 percent of small cities selected it. In terms of regional location, cities in three census regions selected this factor at almost the same rate as the nation. Less than one-third (31.5 percent) of Northeastern cities selected the state limitation factor.

Demands on two important infrastructure components, wastewater treatment and traffic improvements, were selected by nearly half of all cities as having an unfavorable impact on their budget. City size did not matter in city assessment of the unfavorable impact of wastewater treatment needs. Western cities selected this factor slightly less (44.4 percent) than Southern cities (61.3 percent). Western cities also face more traffic problems than other cities, as 62.6 percent identified it as posing an unfavorable burden on city budget-balancing efforts, compared with the national average of 50.7 percent and 39.6 percent of Northeastern cities. Large cities identified traffic improvement demands at a higher rate (69.0 percent) than other city classifications.

The savings and loan crisis, resulting in foreclosures and property tax revenue reductions, was identified as having less importance to cities' budget balancing efforts than most other factors. Nevertheless, a substantial number of Southern (22.1 percent and 24.1 percent) and Northeastern cities (22 percent) identified the two savings and loan questions on the survey as having an unfavorable impact on their budget. The nation's larger cities identified the savings and loan problem more often (34.3 percent by the largest cities, 26.3 percent by the large cities) than others.

CONCLUSIONS

The data collected by this survey instrument can be interpreted through at least two different lenses. One is to examine the complexities of cities' fiscal conditions; the factors influencing the current state of affairs; the policy options selected by cities; and the social, economic, and political implications of the financial data. The other, the green eye-shade approach, is to examine city fiscal conditions through the eyes of an accountant. That is to say, fund revenues and expenditures either balance or they don't; cities raise revenues or cut spending or find alternative service delivery arrangements. From an accountant's point of view, cities do balance their budgets, as required by state law. In one sense, then, regardless of what accounts for cities' fiscal condition or what policy actions might have been taken, budgets are balanced.

Nevertheless, this latter approach has little meaning since cities, except for the recent unique case of Bridgeport, Connecticut, rarely declare bankruptcy. It is true that a sharply higher number of cities face a General Fund deficit in 1991, but it is also highly unlikely that other cities will follow Bridgeport's lead and declare bankruptcy. The imbalance means this year's expenditures are projected to outstrip this year's revenues and, in order to make ends meet, cities may be forced to draw down even more on their previous year's General Fund balance, or select another fiscal policy option. The problem is that those ending balances are shrinking. Between 1989 and 1990, the ending balance for the median city (the city at the fiftieth percentile) increased by 1.9 percent, well below the 5.4 percent inflation rate. The purchasing power of that ending balance, therefore, was less than what it was in the previous year. In addition, because of a projected draw down on the median city's ending balance in 1991 of 11.3 percent, there is a serious erosion in cities' capacity to rely on ending balances to continue to cover General Fund deficits.

Besides the apparent critical shortage of revenues for at least one-quarter of the nation's cities, the two-thirds of all cities whose Imbalances are projected between plus and minus 5 percent are not without hard choices and problems either. One reason that those latter cities do not fall under

the Severe Imbalance category might be that hard policy decisions had already been made in the past 12 months, resulting in a balanced current-year budget. In fact, the data show some support for that proposition. Nearly half of all cities (47.7 percent) in the Balance Group (the group of cities for which 1991 revenues are within five percent of expenditures) increased the property tax rate, compared with 32.3 percent of the Severe Imbalance cities. Further, more than three-fourths of the Balance cities (78.1 percent) increased fees and charges, while a significant, yet smaller, number of Severe Imbalance cities did (64.8 percent). In fact, 83.1 percent of the Positive Imbalance cities have increased fees and charges.

On the other hand, cities may have already made those hard decisions and still cannot generate sufficient revenues. Indeed, more than one-fourth of the Severe Imbalance cities (26.5 percent) have raised their property tax rate to the state-imposed legal limit. Furthermore, fewer than half of the Severe Imbalance cities (48.4 percent) have the legal authority to raise property tax rates without voter approval. The others either are constrained by a referendum requirement (37.1 percent) or are prohibited from raising the property tax rate (14.5 percent).

Balance Group cities were more likely to have reduced the rate of growth in operating spending during the past 12 months than Severe Imbalance cities, 65.1 percent to 47.2 percent, and slightly more likely to have reduced capital spending, 42.1 percent to 34.4 percent. Balance cities also were more likely to have reduced levels of city employment by a wide margin, 35.4 to 15.0 percent, and to have frozen city hiring 39.3 to 28.1 percent. Finally, although one in ten cities reported reducing service levels, 3.9 percent of Severe Imbalance cities reduced service levels compared with 12.2 percent of the Balance Group cities.

One purpose of this comparison is to illustrate that cities whose 1991 revenues are within 5 percent of expenditures might have been more likely to have already made fiscal policy shifts than Severe Imbalance cities, whose expenditures exceed revenues by more than 5 percent. Moreover, there was no fiscal policy action selected by cities in the Severe Imbalance group more often than by cities in the Balance Group. This means either that Severe Imbalance cities more than 12 months ago had already cut services, raised taxes, and adjusted to their fiscal environment, or means that those cities will most likely be engaging in such activities during the next 12 months.

Another purpose of this comparison is to illustrate the complexities in making blanket statements about city fiscal conditions and remedies. Many of the cities in the Severe Imbalance group cannot raise their property tax rates legally, others depend on an affirmative vote of the electorate. Where state statutes or constitutional provisions restrict local option taxes, cities find themselves in an untenable position.

Regardless, it is the consequences of those actions that are absent in the accountant's concern for balancing revenues and expenditures. The consequences of fiscal policy actions are manifold. While service delivery seems to have declined in some cities (primarily in the largest cities), other cutbacks and budgetary actions may have been taken that hold long-term negative consequences. One example of such fiscal policy action is the planned cutbacks in capital spending, an action expected to be taken in 1991 by 43.2 percent of all cities. This action will have the longer-term effect of eventually increasing maintenance and repair costs of city capital facilities.

A second example is that ending balances, which act as cushions when city revenues are generated at unexpectedly low levels, are predicted to be drawn down this year in a majority of cities. Next fiscal year will require more fiscal policy action by these cities, since the cushion will be considerably smaller next year or, in many cases, gone. In fact, the median ending balance in 1991 for all cities is expected to be 11.3 percent below the 1990 median ending balance. Nearly three of every five cities (59.2 percent) expect to reduce their ending balance in 1991. One city actually projected a $1.9 million deficit at the end of 1991.

Furthermore, it should be noted that cutbacks may have already been announced but not yet put into effect at the time the survey was mailed. Cities may also be in the process of deciding those reductions now for fiscal year 1992, since most city fiscal years begin July 1.

In fact, 71.5 percent of all cities, regardless of size and location, claimed that they will be less able to meet their financial obligations in 1991 than they were in 1990. If soaring health and pension costs do not abate, landfill costs continue to accelerate, state aid does not increase at a greater rate than inflation, and the economy does not pick up soon (these latter two factors influence city budgets but are quite outside the city's control), cities may be forced to take fiscal policy options that reduce services, raise local taxes and fees, and find alternate means of providing services. If service reductions or personnel cutbacks become the option of choice, the potential fiscal drag on the economy, as experts have warned, may slow the economy's rebound.

Moreover, cities' 1991 fiscal conditions do not necessarily fit preconceptions of where problems lay. The fiscal problems facing some cities certainly result from previous actions taken by those cities, but for many others, fiscal problems were caused by forces outside their control (e.g., changing economic circumstances, federal and state aid not keeping up with inflation, federal and state mandates). An example of the costly impacts of mandates is the set of requirements contained within the federal Tax Reform Act of 1986. This act requires cities to keep track of their arbitrage earnings if their bond issues exceed a certain amount; arbitrage earnings not in compliance with the act must be returned to the federal treasury. More than one-third of all cities (37.1 percent) responded that they have had to keep track of arbitrage earnings in order to be in compliance with federal tax law, at an average cost of $8,374 per city. In fact, one city responded that the cost to the city of tracking arbitrage was $130,000—a very expensive mandate.

Another preconception of city fiscal problems is that cities in the Northeast and large cities are suffering. Nevertheless, as the survey shows, severe fiscal problems as defined by the Imbalance Index do not plague only large cities or cities in the Northeast. Although many large cities and Northeastern cities do indeed face severe imbalances, a higher proportion of Western and small cities predict a General Fund imbalance worse than -5 percent in 1991.

As a consequence of this diversity, policy prescriptions for dealing with fiscal imbalances must also vary, depending on the constitutional and statutory authority granted to municipal corporations by their states to pursue fiscal policies. Within that authority, nearly all cities of all sizes and in all locations were clearly kept busy adjusting their fiscal policy options to their local fiscal realities. Given the tremendous fiscal policy activism of the past 12 months, there is no reason to believe that city activity in responding to the changing fiscal environment and making the hard choices will abate soon.

APPENDIX A

Methodology

All cities with populations greater than 50,000 and a randomly generated sample of 970 cities with populations between 10,000 and 50,000 were sent surveys in April and May 1991 by the National League of Cities. Questionnaires were mailed to 1,457 cities. They were returned to the Center for Public Management and Regional Affairs, Miami University, Oxford, Ohio, where they were compiled and coded and the data were put into computer-readable format (see Appendix C).

The number of usable responses totaled 525, for a response rate of 36.0 percent (see Tables 20 and 21). The response rate was higher for the larger cities than for smaller cities. Thirty-one of the 51 largest cities, or 58.5 percent, responded (including New York City, Los Angeles, and Chicago), as did 58 of 132 cities, or 43.9 percent, in the larger city category (100,000-299,999 population). Approximately one in three of the remaining cities that were sent surveys returned the form. (Cities that responded to the survey are listed in Appendix B.)

Because the U.S. Bureau of the Census had not released official data on city population at the time the survey was mailed, population groupings in this report are based on the 1980 census. The "largest" cities were those with 1980 populations of 300,000 or more; "large" cities had between 100,000 and 299,999; "medium" cities between 50,000 and 99,999; and "small" cities had 1980 populations of 10,000-49,999. Nevertheless, in an attempt to provide useful cross-city, comparative data on city finances, employment, and tax rates, the survey asked each city to provide the preliminary 1990 population count. This figure was used to standardize the financial and employment data on a per capita basis. Therefore, for purposes of comparability across cities, all statistical data in this report and in the tables are recorded on a per capita basis unless otherwise noted. Cities that did not provide their estimated 1990 population were not counted. As a consequence, although 525 usable surveys were returned, a slightly smaller number (510) actually

Table 20
Cities Surveyed And Response Rate By City Size

City Population	Number of Cities in this Class	Number of Surveys Sent	Number Returned	Response Rate
>300,000	51	51	36	70.6%
100,000-299,999	132	132	58	43.9%
50,000-99,999	304	304	115	37.8%
10,000-49,999	2,185	970	316	32.6%
TOTAL	2,672	1,457	525	36.0%

Table 21
Responding Cities By Census Region And Population Size

	Total	100,000- >300,000	50,000- 299,999	10,000- 99,999	49,999
Northeast	94	4	6	24	60
Midwest	179	13	12	35	119
South	142	10	26	27	79
West	110	9	14	29	58
TOTAL	525	36	58	115	316

comprise the statistical data base. All 525 cities' responses to fiscal policy actions and other questions that did not need to be standardized on a per capita basis were used.

The survey asked for the following statistical data for fiscal years ending in 1989, 1990, and 1991:[8] EMPLOYMENT data (full-time permanent employment, part-time and seasonal employment, total employment, public safety employment, transportation and highway employment, social service employment, sanitation and environment employment, other employment); PROPERTY TAX data (city imposed property tax rate for the general fund and for debt service, any other city imposed property tax rate, assessed value of property subject to taxation, estimated property tax collections); REVENUE COMPOSITION of the city's General Fund (property tax revenue, other local taxes, fees and charges, state aid, federal aid, all other revenue); SALES TAX (sales tax rate, sales tax collection); LONG-TERM DEBT OUTSTANDING; and ARBITRAGE costs.

City finance officials were also asked to provide data on their city's GENERAL FUND. The following were requested:

- **Beginning balance**: These are the resources with which the city's General Fund begins the year. If the city's General Fund were a personal checking account, this would be roughly equivalent to the balance carried forward from the previous month.

8 A few cities end their fiscal years in April; most end the fiscal year on June 30; and others' fiscal years are calendar years. As a result, most of the data requested in the survey are estimates for the 1991 fiscal year. Data for previous years are actual.

- **Revenues (and transfers in)**: This is the grand total of all taxes, fees, charges, federal and state grants, and other monies deposited into the General Fund. While revenues are generally recurring items, the "transfers into general fund" also lumped into this item probably are not. These transfers occur when, for a variety of reasons, a city brings funds from one of its other specialized funds into the General Fund.

- **Expenditures (and transfers out)**: This is the total of all spending by the city's General Fund and may include both operating and capital spending. Transfers out of the General Fund to other funds are also included here.

- **Ending balance**: This is defined as the resources with which the city's General Fund is left at the end of the year. The ending balance of one year becomes the beginning balance of the next. The ending balance is easily calculated as:

Beginning Balance + Revenues - Expenditures = Ending Balance

Cities were also asked to identify which of a list of 15 possible fiscal policy actions were taken during 1991, what single factor most adversely affected city revenues and city expenditures, which of a list of 15 factors inhibited the city's ability to balance its budget, and whether the city is better able or less able to meet its financial needs in 1991 compared with the previous year.

The analysis of the data was done both by city size and by region. The regional breakdown is as follows:

Northeast
- **New England**
  - Connecticut
  - Maine
  - Massachusetts
  - New Hampshire
  - Rhode Island
  - Vermont
- **Mid-Atlantic**
  - New Jersey
  - New York
  - Pennsylvania

Midwest
- **East North Central**
  - Illinois
  - Indiana
  - Michigan
  - Ohio
  - Wisconsin
- **West North Central**
  - Iowa
  - Kansas
  - Minnesota
  - Missouri
  - Nebraska
  - North Dakota
  - South Dakota

South
- **South Atlantic**
  - Delaware
  - District of Columbia
  - Florida
  - Georgia
  - Maryland
  - North Carolina
  - South Carolina
  - Virginia
  - West Virginia
- **East South Central**
  - Alabama
  - Kentucky
  - Mississippi
  - Tennessee
- **West South Central**
  - Arkansas
  - Louisiana
  - Oklahoma
  - Texas

West
- **Mountain**
  - Arizona
  - Colorado
  - Idaho
  - Montana
  - Nevada
  - New Mexico
  - Utah
  - Wyoming
- **Pacific**
  - Alaska
  - California
  - Hawaii
  - Oregon
  - Washington

APPENDIX B

Cities Responding to the 1991 Fiscal Conditions Survey

ALABAMA
Athens
Huntsville
Talladega

ARIZONA
Bullhead City
Casa Grande
Glendale
Mesa
Paradise Valley
Peoria
Phoenix
Scottsdale
Tempe
Tucson

ARKANSAS
Benton
Camden
Fayetteville
Fort Smith
Little Rock
Texarkana

CALIFORNIA
Albany
Alhambra
Arcadia
Arcata
Azusa
Bakersfield
Bell
Beverly Hills
Burbank
Burlingame
Cerritos
Coronado
Downey
El Monte
Gardena
Hanford
Hayward
Hemet
Huntington Beach
Imperial Beach
Irvine
La Mesa
Lakewood
Lawndale
Long Beach
Los Angeles
Mill Valley
Millbrae
Modesto
Montclair
Montebello
Mountain View
Norwalk
Oakland
Palm Springs
Palmdale
Palo Alto
Pasadena
Petaluma
Placentia
Rancho Cucamonga
Redlands
Redondo Beach
Redwood City
Richmond
Riverside
Roseville
Sacramento
San Francisco
San Marcos
San Luis Obispo
San Diego
Sanger
Santa Ana
Santa Barbara
Seaside
Selma
South Lake Tahoe
Stockton
Sunnyvale
Tustin
Vallejo
Walnut Creek
West Covina
Whittier
Woodland

COLORADO
Arvada
Denver
Englewood
Greeley
Louisville
Loveland
Northglenn
Pueblo
Westminster

CONNECTICUT
Bloomfield
Bristol
Cheshire
East Lyme
Fairfield
Hamden
Killingly
Ledyard
Montville
Naugatuck
New London
New Britain
North Haven
Norwalk
Vernon
West Haven
West Hartford
Windsor
Windsor Locks

DELAWARE
Newark

FLORIDA
Altamonte Springs
Boca Raton
Boynton Beach
Clearwater
Cooper City
Daytona Beach
Deerfield Beach
Dunedin
Fort Lauderdale
Greenacres
Haines City
Hollywood
Jacksonville Beach
Lakeland
Largo
Miami
Orlando
Palm Beach Gardens
Palm Beach
Panama City
Pinellas Park
Port Orange
Pt St Lucie
Tampa
Vero Beach
West Palm Beach
Winter Park
Winter Haven

GEORGIA
Albany
Americus
Atlanta
Columbus
Covington
Douglas
Macon
Newnan
Savannah
Warner Robins

IDAHO
Moscow

ILLINOIS
Arlington Heights
Bourbonnais
Bradley
Brookfield
Charleston
Chicago
Darien
Deerfield
Des Plaines
Elk Grove Village
Elmwood Park
Bloomingdale
Evanston
Hazel Crest
Homewood
Lagrange
Lincoln
Lincolnwood
Mchenry
Moline
Mount Prospect
Naperville
Northlake
Palatine
Park Forest
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Cleveland
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Findlay
Gahanna
Greenville
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Wooster
Xenia

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Duncan
Enid
Lawton
Okmulgee
The Village
Tulsa
Woodward

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Portland
Roseburg
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Lansdowne
Meadville

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Pittsburgh
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Sunbury
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Upper Dublin Twp
Wilkes-Barre
York

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Loiza

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Middletown
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Pawtucket
Warwick

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Greenwood
Rock Hill

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Shorewood
West Bend

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Green River
Laramie
Rawlins
Rock Springs

APPENDIX C

About the Center for Public Management and Regional Affairs

The Center for Public Management and Regional Affairs, Miami University, Oxford, Ohio, engages in applied research, technical assistance services, training and education, and database development to serve rural and other small local governments in southwestern Ohio. Funded by the Rural University Project, the center assists local governments in such areas as public administration, technical assistance, capacity building, local government economic development and planning, public program evaluation, and policy research.

Center projects are basically of two types: those initiated upon the request of local governments and those initiated by Center staff as ongoing programs for local governments in the region.

To carry out its projects, the center draws upon faculty and graduate and undergraduate students in such fields as public administration, policy analysis, political science, environmental sciences, geography, and economics.

Services are delivered through field associates, project teams, or faculty consultants.

The Director of the center is Dr. Philip A. Russo, Jr.

Related NLC Publications

This report has discussed how local financial conditions affect other municipal programs and intergovernmental fiscal relationships generally. This year's survey questionnaire highlighted issues relating to infrastructure finance and impact fees, drug abuse treatment, liability, local tax rate plans, and state aid to municipalities.

NLC also has published more in-depth studies relating to these issues, which are highlighted below. To order these publications, simply check the box next to the publication you wish to order, fill out the order form, and return it to the NLC Publications Sales Office at the address below.

- ☐ FINANCING INFRASTRUCTURE: INNOVATIONS AT THE LOCAL LEVEL. Analyzes 24 case studies of innovative financing techniques for public works, including examples of special districts, exactions, utilities, and public-private equity arrangements. 140 pages. $20/NLC members $15.
- ☐ LOCAL STRATEGIES IN THE WAR AGAINST DRUGS. Provides 74 short case-study descriptions of innovative and effective local government programs to combat drug abuse, including efforts dealing with education and prevention, treatment, and prevention of drug-related crime. 155 pages. $20/NLC members $15.
- ☐ STATE AID TO CITIES AND TOWNS. Analyzes the major components of state financial aid to cities and compares varying levels of assistance between states, including data on total aid, aid by function, aid per city resident, and other indicators. 36 pages. $15/NLC members $10.
- ☐ LOCAL GOVERNMENT TAX AUTHORITY AND USE. Analyzes a wide variety of taxes local governments use to finance operations, including highlights of local property, sales, and income tax rates, selective sales taxes (hotel-motel, gasoline, alcohol) and local user charges and their use by local governments. 156 pages. $20/NLC members $15.
- ☐ MUNICIPAL LIABILITY: WHAT SHOULD BE DONE ABOUT SECTION 1983? Discusses the 1871 law and its impact on cities, highlights problems caused by the loss of sovereign immunity and attorney fee award provisions, and analyzes policy proposals for changing Section 1983. 50 pages. $15/NLC members $10.
- ☐ CITY FISCAL CONDITIONS IN 1989/1988/1987. Presents the results of NLC's annual survey of city officials on current economic and fiscal conditions in their cities and the outlook for the future. $20/NLC members $15/each.

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The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,400 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.